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TRADING IN COMMODITY FUTURES CONTRACTS on the CHICAGO BOARD OF TRADE

U.S. DEPARTMENT OF AGRICULTURE • COMMODITY EXCHANGE AUTHORITY

TRADING IN COMMODITY FUTURES CONTRACTS ON THE CHICAGO BOARD OF TRADE

A Study of the Sources and Distribution of Trading and Commission Income

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SUMMARY

During a 19-day survey period covering selected trading weeks in March and May 1972, commissions charged for clearing closed-out futures contracts on the Chicago Board of Trade totaled over $4.3 million. These closed-out trades numbered 533,770, an average of 28,093 per trading day. While traders who were not members of the board accounted for only 21 percent of the trades, their trading generated about 69 percent of the commission income. The average commission paid by nonmembers was $26.17 per contract, compared with $3.14 per contract paid by board members.

Trading in commodity futures contracts on the Chicago Board of Trade--the oldest and largest U.S. commodity exchange--involved an estimated 9.6 million contracts in 1972. This trade, which accounted for about 53 percent of total U.S. commodity futures trading, was valued at over $123 billion. Based on actual trading volume and on the same commodity and commission-rate distributions as in the survey period, total commission payments in 1971 are estimated to have been $69 million, and in 1972, $78 million.

Board memberships in 1972 numbered 1,402: 689 individual memberships and 713 memberships registered under 340 firm names. The board's clearinghouse, a separately capitalized and operated institution that matches the buy and sell orders that are executed each day, had 113 members. These clearinghouse members had about 128,000 customers in February 1972, 56 percent of which were considered to be active accounts. Of the 31 clearing firms doing customer business, 44 percent were commodity houses (firms specializing in commodity futures); 31 percent were wirehouses (firms dealing in securities and other investment services as well as in commodity futures); and the remaining 25 percent were commercial firms engaged primarily in handling cash commodities.

During the 1972 survey period, commodity houses cleared 58 percent of the close-out trades, followed by wirehouses--16 percent; commercials with customers--14 percent; sole proprietorships--11.5 percent; and commercials without customers--less than 1 percent.

Member firms tended to specialize by type of customer. Of the trades closed out by wirehouses, about 78 percent was for customers who were not members of the board of trade. On the other hand, the majority of trades closed out by commodity houses--88 percent--was for members. Trades cleared by commercials also reflected a high percentage of member volume, but most of it was the commercials' own trading.

About two-thirds of members' trades were closed out at a minimal commission charge or at no charge. Slightly less than 14 percent of such trades were closed out at the regular member commission rate, which is one-half the regular rate charged for clearing nonmember trades. Nonmember trading at the regular nonmember rate was the most important source of commission income.

Wirehouses collected 44 percent of the total commission income, commodity houses collected 39 percent, and commercials with customers collected the remaining 17 percent. Wirehouses received more gross income than did commodity houses, despite the fact that commodity houses closed out over three times as many trades during the survey period. This occurred because the wirehouses' volume was mostly for nonmembers and reflected the highest rates of commission, whereas commodity houses dealt mostly with member traders who paid the lowest rates of commission.

The data indicate that the commodity futures brokerage business on the Chicago Board of Trade is not very concentrated. The four largest clearing members cleared 21 percent of the close-out volume; the eight largest firms cleared 33 percent; and the 20 largest firms cleared 55 percent. With respect to commission income, the four largest firms received 29 percent of the total; the eight largest received 45 percent; and the 20 largest, 70 percent.

A comparison of the 1972 survey data with data reported in a 1926 Federal Trade Commission study of the grain futures industry indicates that between 1922 and 1972, the number of wirehouses more than doubled and the number of commercials declined sharply. Wirehouses now do less trading for other firms and for board members than they did 50 years ago, but their share of nonmember trading has increased significantly. Trading of clearing members for their own account--which involves no commission income--increased from 15 percent of all trading in 1916-17 to 35 percent in the 1972 survey period. Of all commodity futures contracts traded on the board in 1916-17, individual nonmember trades accounted for approximately 21 percent--the same proportion held by individual nonmembers in the 1972 survey of close-out trades. Pit traders, or scalpers, continue to account for about the same proportion (35-40 percent) of trading today as they did 50 years ago. Scratch trades averaged over 30 percent of all trading in the early 1920's, compared with about 7.5 percent in the 1972 survey period.

Analysis of regular, daily reports submitted to the Commodity Exchange Authority (CEA) by large traders and of data obtained from special CEA market position surveys indicates that an overwhelming percentage of the large traders were board members. Also, traders with the largest open commitments were not those who did the most trading.

TRADING IN COMMODITY FUTURES CONTRACTS ON THE CHICAGO BOARD OF TRADE

A Study of the Sources and Distribution of Trading and Commission Income

by

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Commodity Exchange Authority 1/

I--INTRODUCTION

This report examines the composition of trading in commodity futures contracts on the Chicago Board of Trade and the amount and source of commission paid in connection with that trading. 2/ Specifically, the report discusses:

(1) The relative importance of different types of traders and trading on the board of trade,

(2) the volume of trading at different rates of commission,

(3) the volume of trading by members and nonmembers of the board,

(4) the amount and source of commission income to brokerage firms,

(5) the relative importance of different types of brokerage firms, and

(6) the structure of the board and the operating practices of its members.

Special financial and trading data were developed for this study to supplement data already available in the Commodity Exchange Authority (CEA) and other agencies of the U.S. Department of Agriculture. At the request of the CEA, the Chicago Board of Trade asked each member of the Board of Trade Clearing Corporation to supply information on volume of trading by type of trade and at different rates of commissions and fees during selected weeks in March and May 1972.

1/ Alexander Swantz is Associate Administrator of the agency; Anita M. Schwartz is an economist, Eastern Region office in New York; and Donald G. Nash and John R. Mielke are economists in the Central Region office in Chicago.

2/ In this report, "board," "board of trade," and "Chicago Board of Trade" are used interchangeably instead of the exchange's legal name, "The Board of Trade of the City of Chicago."

Periodically, the CEA conducts a marketwide survey of traders' positions in a commodity on a particular day. Results of these surveys are available to the public, but they generally do not include data on trading activity. No detailed information on the volume of trading at different commission rates has been published since the early 1920's, when the Federal Trade Commission (FTC) and the Grain Futures Administration studied the grain trade in depth. 3/ Because 1972 marked the 50th anniversary of the Grain Futures Act--and hence 50 years of regulation of grain exchanges--this report also compares the present market structure with that existing in the period before Federal regulation.

II--THE COMMODITY FUTURES INDUSTRY AND THE CHICAGO BOARD OF TRADE

In February 1972, the commodity futures industry in the United States involved 16 organized exchanges, 50 commodities, and transactions valued at about $190 billion. Over 18.3 million futures contracts were traded in 1972, compared with about 9.3 million 4 years earlier (table 1).

The Chicago Board of Trade, with 1,402 members, is the oldest and largest of the U.S. commodity exchanges. In 1971, it accounted for over 8.5 million--or 59 percent--of all futures contracts traded (table 2). These transactions, representing 11 commodities, were valued at over $88 billion. In 1972, the 9.6 million contracts traded on the board were valued at $123 billion and represented about 53 percent of total U.S. commodity futures trading. The board is the only market that conducts trading in soybean meal, soybean oil, and iced broilers. It handles almost all of the futures trading in corn, oats, soybeans, and plywood and a major share of the futures trading in wheat.

In fiscal years 1971 and 1972, nearly two out of every three brokerage firms registered with CEA to do customer business as "futures commission merchants" were members of the Chicago Board of Trade (table 3). 4/ Over half of the floor brokers registered with CEA in these years were board members.

3/ U.S. Federal Trade Commission, Report of the Federal Trade Commission on the Grain Trade, 1926; and Grain Futures Administration, Annual Report, 1924.

4/ Terms used in this report are defined on pp. 54-56.

Table 1--Estimated number of futures contracts traded on all markets in the United States, by commodity, 1968-72

Commodity	1968	1969	1970	1971	1972
			Number		
Wheat	1,637,465	972,654	803,073	770,078	1,281,269
Corn	1,576,634	1,642,385	2,151,393	2,084,385	1,955,081
Oats	124,860	136,841	93,047	45,728	41,402
Rye	28,523	20,040	4,037	5	--
Grain sorghums	2,037	1,726	466	8,656	1,362
Soybeans	955,974	1,010,958	2,056,825	3,159,547	4,123,737
Soybean meal	367,278	415,216	868,413	474,794	631,117
Soybean oil	300,871	778,824	1,907,436	1,491,324	1,110,829
Coconut oil 1/	--	--	--	--	1,812
Cottonseed oil	70	13	25	25	4
Cotton	239,803	64,428	33,657	358,984	332,092
Wool	10,871	6,347	3,779	3,538	3,772
Wool tops	130	92	66	6	--
Butter	--	13	--	--	--
Eggs, shell	165,391	448,102	678,653	381,326	475,004
Eggs, frozen	2,000	303	21	--	88
Potatoes	479,135	454,780	394,844	175,306	253,376
Frozen concentrated orange juice	149,122	129,877	73,347	157,929	123,663
Cattle	273,458	1,071,328	583,102	746,851	1,378,255
Frozen boneless beef	--	--	1,584	684	958
Hides	1,658	278	7	--	--
Hogs, live	8,872	63,883	115,108	262,450	542,331
Frozen pork bellies	1,399,730	2,169,890	1,778,443	1,698,579	2,058,620
Frozen skinned hams	208	431	216	77	2
Iced broilers	2,135	92,553	93,229	54,891	23,264
Cocoa	397,199	406,423	315,177	219,420	283,651
Lumber	--	744	85,513	100,149	66,950
Plywood	--	5,692	48,021	228,437	221,651
Sugar	538,813	550,396	354,610	476,103	932,855
Other agricultural and forestry commodities 2/	840	1,893	702	1,654	14,156
Diamonds	--	--	--	--	3,574
Copper	40,916	86,189	177,890	240,383	254,410
Platinum	96,906	84,009	98,867	112,413	159,272
Silver	480,459	641,014	1,066,967	1,231,179	1,786,017
Other metals 3/	45,582	12,657	1,716	769	604
Silver coins	--	--	--	18,741	69,547
Foreign currencies	--	--	1,340	14,603	169,468
Propane	3,369	569	674	1,891	925
Total	9,330,309	11,270,548	13,792,248	14,520,905	18,301,118

1/ Inaugurated Oct. 31, 1972.
2/ Includes apples, coffee, fishmeal, molasses, pepper, rubber, tomato paste, and tom turkeys.
3/ Includes aluminum, gold, lead, mercury, nickel, palladium, tin, and zinc.

Source: Compiled from CEA data and from information supplied by the Association of Commodity Exchange Firms, Inc.

Table 2--Estimated number of futures contracts traded on the Chicago Board of Trade, and as a percentage of all futures contracts traded, by commodity, 1968-72

Commodity	1968	1969	1970	1971	1972	1968	1969	1970	1971	1972
	Number					Percent				
Wheat	1,306,304	756,057	559,514	549,794	855,833	79.8	77.7	69.7	71.4	66.8
Corn	1,567,476	1,629,094	2,140,044	2,073,874	1,942,502	99.4	99.2	99.5	99.5	99.4
Oats	123,259	133,729	91,816	45,004	39,270	98.7	97.7	98.7	98.4	94.9
Rye	28,143	19,595	3,957	3	--	98.7	97.8	98.0	60.0	--
Soybeans	943,678	1,000,911	2,031,269	3,113,469	4,042,545	98.7	99.0	98.8	98.5	98.0
Soybean meal	367,278	415,216	868,413	474,794	631,117	100.0	100.0	100.0	100.0	100.0
Soybean oil	300,871	778,824	1,907,436	1,491,324	1,110,829	100.0	100.0	100.0	100.0	100.0
Choice steers	20,416	57,061	4,577	149	--	7.5	5.3	.8	1/	--
Iced broilers	2,135	92,553	93,229	54,891	23,264	100.0	100.0	100.0	100.0	100.0
Silver	--	47,103	362,624	511,391	813,492	--	7.3	34.0	41.5	45.5
Plywood	--	393	47,229	218,856	217,631	--	6.9	98.4	95.8	98.2
Lumber, stud	--	--	--	--	411	--	--	--	--	.6
Total	4,659,560	4,930,536	8,110,108	8,533,549	9,676,894	49.9	43.7	58.8	58.8	52.9

1/ Less than 0.05 percent.

Source: Data for 1968-71 compiled from information supplied by the Chicago Board of Trade. Data for 1972 compiled from information supplied by the Association of Commodity Exchange Firms, Inc.

Table 3--Futures commission merchants and floor brokers registered with CEA, and their membership on the Chicago Board of Trade, fiscal years 1971 and 1972

Item	Futures commission merchants		Floor brokers	
	FY 1971 1/	FY 1972	FY 1971	FY 1972
	Number			
CEA registrants	225	225	1,107	1,197
Registrants reporting membership on the Chicago Board of Trade	145	144	607	635
	Percent			
Percentage of CEA registrants who were board members	64	64	55	53

1/ Does not include firms who were registered under section 1.31a of the general regulations under the Commodity Exchange Act for the purpose of giving up their customer accounts to other futures merchants on a fully disclosed basis. The regulation permitting this type of activity was revoked Jan. 1, 1972.

III--MEMBERSHIP, CUSTOMER, AND COMMISSION-RATE STRUCTURES OF THE BOARD

Membership

Individual and firm memberships

Only individuals may hold membership in the Chicago Board of Trade, but memberships may be registered under a firm's name. In this way, a firm qualifies for member benefits, such as member commission rates, and is subject to the board's rules and regulations. As of February 11, 1972, there were 1,402 memberships: 689 individual memberships and 713 memberships assigning privileges to 340 firms.

Firms with membership privileges on the Chicago Board of Trade fall into two categories: (1) those that handle trades for customers and, in some cases, for their own account as well, and (2) those that handle trades solely for their own account. The latter category consists of sole proprietorships, partnerships, and commercial firms.

Clearing and nonclearing memberships

After a trade is executed on the floor of the exchange by a board member, it must go through a member of the Board of Trade Clearing Corporation for clearance. This clearinghouse, which was organized in 1925, is a separately capitalized and operated institution. It matches the buys and sells that are executed each day and then records the transaction in the accounts of clearing members, who represent buyers and sellers. In this process, the clearinghouse assumes legal responsibility for the opposite side of every transaction.

Membership in the clearing corporation is not limited to individuals, but is open to partnerships, corporations, and cooperatives which have the required number of individual board memberships registered in their firm names. Individual clearing members may use the clearinghouse for their own trades only, whereas clearing firms having more than one membership on the board may also clear trades for customers. Almost all sole proprietorships, partnerships, and commercial firms having board membership privileges are also members of the clearinghouse. As of February 11, 1972, the clearing corporation had 113 members who held 457 board memberships--almost one-third of total board memberships (table 4).

Table 4--Clearing members of the Chicago Board of Trade, by type of member, Feb. 11, 1972

Type of clearing member	Memberships in clearing corporation	Memberships in Chicago Board of Trade
	Number	
Brokerage firms: 1/		
Handling customers' business	76	388
Trading only for own account	21	53
Floor brokers	6	6
Floor traders	5	5
Others	5	5
Total	113	457

1/ As indicated in the text discussion, brokerage firms and floor brokers handling trades in regulated commodities for customers must register with the CEA.

Members authorized to handle customer business

All U.S. brokerage firms and floor brokers handling customer business in regulated commodities must register, respectively, as futures commission merchants and floor brokers with the CEA. Thus, individual members or member firms on the Chicago Board of Trade may or may not be registered with CEA, depending on whether they handle trade for others. In February 1972, 141 member firms representing 468 board memberships were registered with CEA as futures commission merchants, and 617 persons were registered as floor brokers (table 5).

Table 5--Chicago Board of Trade members and member firms registered with CEA to handle customer business, by type of member, Feb. 1972

CEA registrants	Individual memberships	Firms
	Number	
Futures commission merchants:		
Clearing members	388	76
Nonclearing members	80	65
Total	468	141
Floor brokers:		
Assigning privileges to a clearing firm	185	
Assigning privileges to a nonclearing firm	28	
Independent	404	
Total	617	
Independent floor brokers:		
Executing trades for own and customer accounts	278 1/	
Executing trades for own account only	112 2/	
Executing trades for customer accounts only	14	
Total	404	

1/ Includes 6 clearing members.
2/ Includes 5 clearing members.

Types of futures commission merchants

Futures commission merchants fall into one of three types: wirehouses, commodity houses, or commercials. A wirehouse has many branch offices connected by telephone, teletype, telegraph, or cable. It deals in securities and other investment services as well as in commodity futures. Commodity houses, which tend to be localized in the Chicago area, specialize in commodity futures. Some concentrate on member or nonmember business, others concentrate on hedger or speculator business, and some are professional speculators who handle some customer business. A commercial is a firm engaged in storing, processing, or merchandising a cash commodity and has a membership on the Chicago Board of Trade primarily to conduct its own hedging operations. Some commercials trade only for their own account, but many register to handle customer business as a supplement to their hedging operations. Of the commercials registered with CEA, some have subsidiaries or divisions to handle customer business and others handle futures business more as a service or accommodation for their customers in the cash commodity markets. The relative importance of these types of firms on the Chicago Board of Trade as of February 1972 is indicated below:

Type of firm	Number 1/	Percent of total
Wirehouse	41	31.3
Commodity house	57	43.5
Commercial	33	25.2
Total	131	100.0

1/ Ten of the 141 firms doing customer business either had no customers or were on a disclosed basis, and their customers were reported by the carrying futures commission merchant.

Customers

Futures commission merchants who were members of the Chicago Board of Trade in February 1972 handled futures trading for 128,768 customers. More than half of these customers (56 percent) were considered to be active accounts. As indicated below, the vast majority (96 percent) of the customers were not members of any commodity exchange:

Customers of futures commission merchants	Number
Members of the Chicago Board of Trade	2,317
Members of other commodity exchanges	2,905
Not members of any commodity exchange	123,546
Total customers of futures commission merchants on the Chicago Board of Trade	128,768

Data for this tabulation were obtained from the Chicago Board of Trade futures commission merchants. There are two reasons for the difference between the 2,317 figure representing customers who were "members of the Chicago Board of Trade" and the 1,402-membership figure mentioned earlier. An individual member may give membership privileges to his firm, so both the member and his firm may have been counted as "member customers," even though the firm is not counted as one of the 1,402 members of the board. More important, however, is the common practice of large traders, most of whom are board members, to have accounts with more than one futures commission merchant; hence, some duplication of customer numbers appears above. Also, some of the 2,905 members of other commodity exchanges were individual members of the board. The category for customers who were not members of any exchange is not likely to reflect any significant duplication.

Of the 128,768 customers, about 72 percent were customers of wirehouses (table 6). However, the commodity houses and commercials had a relatively higher proportion of active accounts. This is dramatized by the data showing that wirehouses reported having more inactive than active accounts, and that their inactive accounts comprised 81 percent of all inactive accounts.

Table 6--Customers of Chicago Board of Trade futures commission merchants, by type of firm, Feb. 1972 1/

Type of firm	Number of customers			Percent of customers		
	Total	Active	Inactive	Total	Active	Inactive
	- - - - Number - - - -			- - - - Percent - - - -		
Wirehouses.........	92,177	45,647	46,530	71.6	63.9	81.3
Commodity houses...	27,458	19,186	8,272	21.3	26.8	14.4
Commercials........	9,133	6,662	2,471	7.1	9.3	4.3
Total............	128,768	71,495	57,273	100.0	100.0	100.0

1/ Data are based on the list of customers maintained by each futures commission merchant and the firm's view of which accounts were active and inactive.

Of the 2,317 customers who were also members of the Chicago Board of Trade, most had accounts with commodity houses (table 7). The vast majority of nonmember customers were customers of wirehouses. The commercials had the smallest percentage of member and nonmember customers, but had a relatively larger share of the accounts of members.

Table 7--Customers of Chicago Board of Trade futures commission merchants, by type of firm and the customers' board membership, Feb. 1972

Type of firm	Number of customers			Percent of customers	
	Total	Members 1/	Nonmembers	Members	Nonmembers
	Number			Percent	
Wirehouses	92,177	830	91,347	35.8	72.2
Commodity houses	27,458	1,268	26,190	54.7	20.7
Commercials	9,133	219	8,914	9.5	7.1
Total	128,768	2,317	126,451	100.0	100.0

1/ Some members trade through more than one firm.

Commission Rates

The commission for handling a futures transaction on the Chicago Board of Trade is "for the purchase, or for the sale, or for the purchase and sale...."5/ Thus, if a trader makes a buying and selling transaction through the same firm (as nearly all traders do), the firm's commission covers both the buying and the selling of a commodity futures contract. This contrasts with the general situation in securities markets, where a commission is paid both for a purchase and for a sale. In the case of a round-turn (buying and selling or vice versa) on the board, the commission is collected from the trader when the contract is closed out.

Commission rates on the board vary by type of trader, by type of trade, and by the commodity traded. Clearing members trade without paying commissions; nonclearing members trade through clearing members and pay a rate that is one-half the rate paid by nonmembers; and nonmembers trade through clearing or nonclearing members and pay a "full" minimum commission rate established by the board. The regular minimum rate (which is defined below) for wheat, corn, and soybeans illustrates how commission rates vary by type of trader: (1) clearing members pay no commission; (2) nonclearing members pay $15 per contract; and (3) nonmembers pay $30 per contract.

Types of commission rates

Commissions paid by nonclearing members and nonmembers vary by type of trade. Regular rates apply only when special rates do not apply. These regular rates are minimum commission rates charged for the purchase, sale, or purchase and sale of a futures contract to be offset or settled by delivery. Most nonmember trading falls under the regular-rate classification.

There are several special rates. An intramarket-spread rate applies when

5/ Rules and Regulations of the Chicago Board of Trade, chp. 8.

the purchase and sale of different futures of the same commodity on the board are initiated at the same time and closed at the same time, with both transactions being placed on the books of the member receiving such business.

An intercommodity-spread rate applies when two transactions (a purchase and a sale) occur on the board in two substitutive or related commodities, which are initiated at the same time on the same order and closed at the same time on the same order, when all of these transactions are placed on the books of the member receiving such business.

Foreign rates are charged to commodity futures customers residing outside the United States, Canada, Cuba, Puerto Rico, Mexico, or the Virgin Islands.

Day-trade rates are for the purchase and sale of the same future of the same commodity, for the same person, on the same day.

Members trading off the floor pay a higher commission than do members trading on the floor. Members trading on the floor pay a special commission, specified by the board and generally referred to as "closed in 180 days." 6/ Rates specified under the "closed in 180 days" rule apply when a member acts as commission merchant for a nonclearing member, and the nonclearing member makes his own trades or is present on the floor and gives his orders to a broker and pays the floor brokerage (see p.13 for a discussion of floor brokerage fees). In this case, trades are exclusively for the personal account of the nonclearing member and are closed within 180 days. If these transactions are not closed within 180 days, the applicable rate is the regular member rate, less floor brokerage, if paid by the nonclearing member.

Scratch-trade rates are for trades which are opened and closed on the same day at the same price by a nonclearing member operating under the "closed in 180 days" rule. They allow scalpers and day traders to avoid day-trade commission charges on such transactions. Scratch trades may not be transferred and the minimum clearing rate which must be charged by the clearing member is 10 cents per contract. This charge is intended to cover the bookkeeping expense

Thus, members trading on the floor under the provision of the "closed in 180 days" rule may trade at an extremely low rate compared with rates charged nonmembers (table 8).

An omnibus account is an account carried by a clearing firm for another member or member firm in which the principal or principals are not disclosed to the clearing member. The nonclearing member deals directly with his customers, but instructs a clearing member to clear the customers' trades. The nonclearing member receives 55 percent of the commission paid by the customer. This business comes to the clearing member free of expense other than that attributable to customary wire and telephone service.

6/ As specified in Rule 221(e) of Rules and Regulations of the Chicago Board of Trade.

A nonclearing member may also have a clearing member clear the trading of his customers on a disclosed basis. In this case, the clearing member knows the identity of the nonmember's customers. After executing trades, the clearing member sends confirmations and other account statements directly to the customer rather than to the nonclearing member. The nonclearing member receives one-half of the commission paid by the nonmember less one-half the floor brokerage.

Transactions of all members other than a registered corporation or partnership, acting as correspondents of a clearing member or having an arrangement with a clearing member under Rule 222, must be conducted on a disclosed basis with the clearing member. The member must furnish to the clearing member the name and address of each customer involved in each transaction and all pertinent information concerning the transaction.

Table 8--Commission rates per contract for wheat, corn, and soybeans, Chicago Board of Trade, by type of trade, Feb. 1972

Type of trade	Rates per contract for wheat, corn, and soybeans	
	Member	Nonmember
	Dollars	
Regular futures commission	15.00	30.00
Intramarket spreads	9.00	18.00
Intercommodity spreads 1/	31.00	62.00
Foreign rates	+2.50	+2.50
Day trades (member off the floor, trades closed out the same day)	15.00	20.00
Floor trades (member on the floor, trades closed out in 180 days)	1.60	2/
Scratch trades (nonclearing member on the floor, trades closed out the same day and at the same price)	.10	2/

1/ Crush and reverse crush spread rate is for 3 contracts (soybeans, soybean meal, and soybean oil).
2/ Not applicable.

Commission rates as percentage of contract value

The commission charged on a commodity futures trade is small relative to the contract value--it was less than 1 percent of the contract value in all cases on March 20, 1972 (app. table A-2). For example, the commission on oats (which was the highest relative to contract value) at the regular rate for a nonmember trade was only .64 of 1 percent of the contract value of the trade. 7/

7/ Effective with the Mar. 1973 future, the rate per bushel of oats is reduced by one-half.

Commissions are larger relative to gains and losses incurred on a futures contract. They have a major effect on the profits and losses of nonmember speculators and nearly prohibit them from profiting from small price changes. For example, since the nonmember's commission for trading corn futures and holding a position overnight is nearly 5/8 cent per bushel, he has to realize a favorable price change of 5/8 cent per bushel before realizing a profit of only $1.25. On the other hand, a member trading on the floor realizes a profit of $4.65 on a minimum change of 1/8 cent per bushel or a profit of $29.65 on a favorable price change of 5/8 cent per bushel if he liquidates his trade in less than 180 days. Appendix table A-3 shows the minimum price changes necessary to cover commissions.

Losses, including commission charges, are greater for a nonmember trader than for a member trader. For example, an unfavorable price change for corn of 1 cent per bushel represents a loss of 1-5/8 cents per bushel or $81.25 per contract for the nonmember, compared with a loss of less than 1-1/8 cents per bushel or $51.60 per contract for a member trader liquidating in less than 180 days.

A 1-cent-per-bushel change in corn prices will yield for a nonmember on a regular overnight trade a 1 to 4 ratio of profits to losses, after commission. For a member trader operating under the "closed in 180 days" rule, the same price change yields a profit to loss ratio, after commission, of about 1 to 1.1. However, it is important to note that these ratios come closer together as price changes become larger. It would be safe to assume that small nonmember traders generally have expectations of large price changes, whereas member traders often trade with expectations of small price changes. This is exemplified by the large number of member day traders and scalpers and few nonmember day traders and scalpers.

Rates of Floor Brokerage

Floor brokers specialize in executing trades on the exchange floor, earning a brokerage fee on each purchase and each sale of a futures contract. A floor broker employed by and executing trades for a firm may receive an annual salary equal to or above the brokerage fees he would otherwise earn independently.

Unlike commissions, floor brokerage fees are the same whether the trade is for a member or nonmember. All floor brokerage fees are included in the commission rate charged to nonmembers and members not trading for themselves with the exception of those members trading under the 180-day rule, where brokerage is paid separately.

Rates of floor brokerage for the purchase or sale of commodities for future delivery are shown in appendix table A-4. Round-turn floor brokerage fees approximate 10 percent of nonmember commission rates.

Clearing Fees

Fees charged for clearing trades through the Board of Trade Clearing Corporation are included in the commission charge. Clearing fees are fixed from time to time by the board and are not submitted to stockholders for ratification. The clearing fees are for clearing services performed by the clearinghouse and are charged to the clearinghouse member.

The February 1972 clearing fee for wheat, corn, oats, and soybeans was $2.80 per million bushels, or 1.4 cents per contract cleared. The fee for soybean oil, soybean meal, iced broilers, plywood, choice steers, and silver was 3 cents per contract cleared.

IV--VOLUME AND SOURCE OF CLOSE-OUT TRADING

This chapter presents information on the volume and source of close-out trading on the Chicago Board of Trade during two survey periods in 1972. Chapter V discusses the amount and source of commission income from this close-out trading. Close-out trade data were used because commissions are normally charged on the round turn--that is, when an open contract is liquidated.

Data were obtained from special reports from clearing members. Although such members report daily on the number of transactions executed on the floor and cleared by them, these reports do not permit calculation of commission income. The special reports to CEA included information on all close-out trading, not just trades for customer accounts. Information on customer trades was reported separately for members and nonmembers of the Chicago Board of Trade Commission revenues were reported by commission-rate category and commodity.

Initially, information was requested for the period March 20-30, 1972. Because March 31 was a holiday, only 9 trading days were involved in this survey period. March 21 was the last trading day for March 1972 future contracts--March 1972 contracts remaining open after the close of trading on March 21 had to be settled through delivery of the actual commodity.

After data for March 20-30 were collected, tabulated, and analyzed, it was decided to ask clearing members to report similar data for the first 2 weeks of a month in which several expiring futures were still being traded. The period selected was May 1-12, 1972. The selection of the two survey periods was more a practical necessity than a random selection because of certain time constraints in collecting the data. There does not appear to be any reason to believe, however, that the proportions of close-out trading in the various categories are unrepresentative of the current marketing structure.

All clearing members were classified into one of the following categories: (1) Wirehouses, (2) commodity houses, (3) commercials with customers, (4) sole proprietorships, and (5) commercials without customers. There were 114 clearing members during the March 20-30 period. Of these, four did not trade and one relatively small firm submitted data which were inaccurate and not in usable form. Two new sole proprietorships became clearing members in the interim between the two surveys, so there were 116 clearing members during the May 1-12 period. Three firms did not clear any trades during this 2-week period, so 113 clearing firms are included in the second tabulation.

The clearing firms whose data are included in this survey were classified as follows:

Type of clearing firm	Mar. 20-30	May 1-12	Both periods
		Number	
Wirehouses	21	21	21
Commodity houses	41	42	42
Commercials with customers	11	12	12
Sole proprietorships	31	34	34
Commercials without customers	5	4	5
Total	109	113	114

Monthly Volume, 1969-72

Figure 1 and table 9 show the monthly volume of trading on the board during January 1969 through December 1972. A trend of increased volume of trading is illustrated in figure 1 as is the volatility of total volume of trading. Some seasonal factors are also apparent. Volume of trading on the board tends to reach an annual low in January or February and seems to reach one peak in the spring and another in the fall, particularly in October.

During the survey period in 1972, total volume rose to a peak in March and declined in April and May. Although the March peak occurred a little earlier than spring peaks in preceding years, it does not appear to be a substantial deviation from the seasonal pattern.

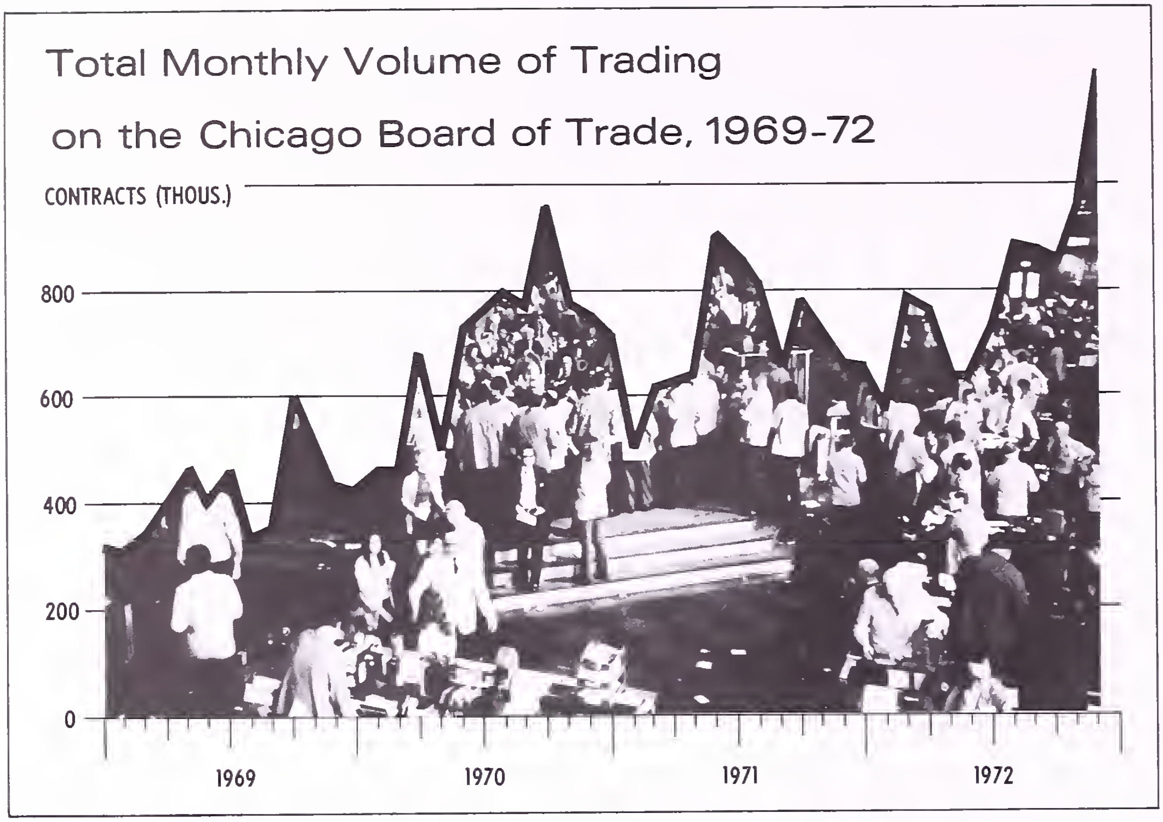

Figure 1

Table 9--Monthly volume of trading in commodity futures contracts, Chicago Board of Trade, all commodities, 1969-72

Month	1969	1970	1971	1972
	Number of contracts			
January	319,226	427,850	728,991	654,131
February	311,390	465,427	509,939	577,289
March	341,558	469,668	611,296	790,191
April	396,854	679,364	633,417	768,035
May	459,541	509,190	642,432	644,486
June	397,389	728,342	897,677	639,226
July	459,298	758,054	873,219	733,642
August	336,093	799,326	819,961	891,601
September	357,929	775,994	658,319	882,420
October	600,282	959,430	783,725	862,831
November	514,462	772,932	714,421	965,616
December	436,514	764,531	660,152	1,209,839
Total	4,930,536	8,110,108	8,533,549	9,619,307

Source: Chicago Board of Trade.

Weekly Volume, January-May 1972

Table 10 shows for each week in 1972 through May, the number of trading days, the total number of trades executed, and the average daily volume of trading. The average daily volume of trading by week is portrayed graphically in figure 2.

Both periods used in the CEA survey occurred when average daily volume of trading was declining. In fact, the second week of each 2-week period was a low point in the cyclical pattern of weekly average volume during 1972.

Table 10--Number of trading days per week, number of contracts traded per week, and daily average number of contracts traded on the Chicago Board of Trade, Jan. 3-May 31, 1972

Dates in week	Trading days in the week	Contracts traded: Weekly total	Contracts traded: Daily average
		Number	
Jan. 3-7	5	174,119	34,824
Jan. 10-14	5	160,792	32,158
Jan. 17-21	5	148,829	29,766
Jan. 24-28	5	142,515	28,503
Jan. 31-Feb. 4	5	132,259	26,452
Feb. 7-11	5	111,353	22,271
Feb. 14-18	5	126,224	25,225
Feb. 22-25	4	136,575	34,143
Feb. 28-Mar. 3	5	221,463	44,293
Mar. 6-10	5	190,267	38,053
Mar. 13-17	5	193,430	38,686
Mar. 20-24	5	164,636	32,927
Mar. 27-30	4	119,159	29,790
Apr. 3-7	5	169,652	33,930
Apr. 10-14	5	200,947	40,189
Apr. 17-21	5	189,276	37,855
Apr. 24-28	5	208,160	41,632
May 1-5	5	150,964	30,193
May 8-12	5	118,720	23,744
May 15-19	5	154,928	30,986
May 22-26	5	164,223	32,845
May 30-31	2	55,409	27,705

Source: Chicago Board of Trade.

These patterns of monthly and weekly volume provide a point of reference in considering results from the two surveys of close-out volume. The survey results must also be considered in light of other factors, such as the difference between total volume and close-out volume (discussed below) and the fact that the surveys were conducted during different parts of 2 delivery months for most board of trade commodities.

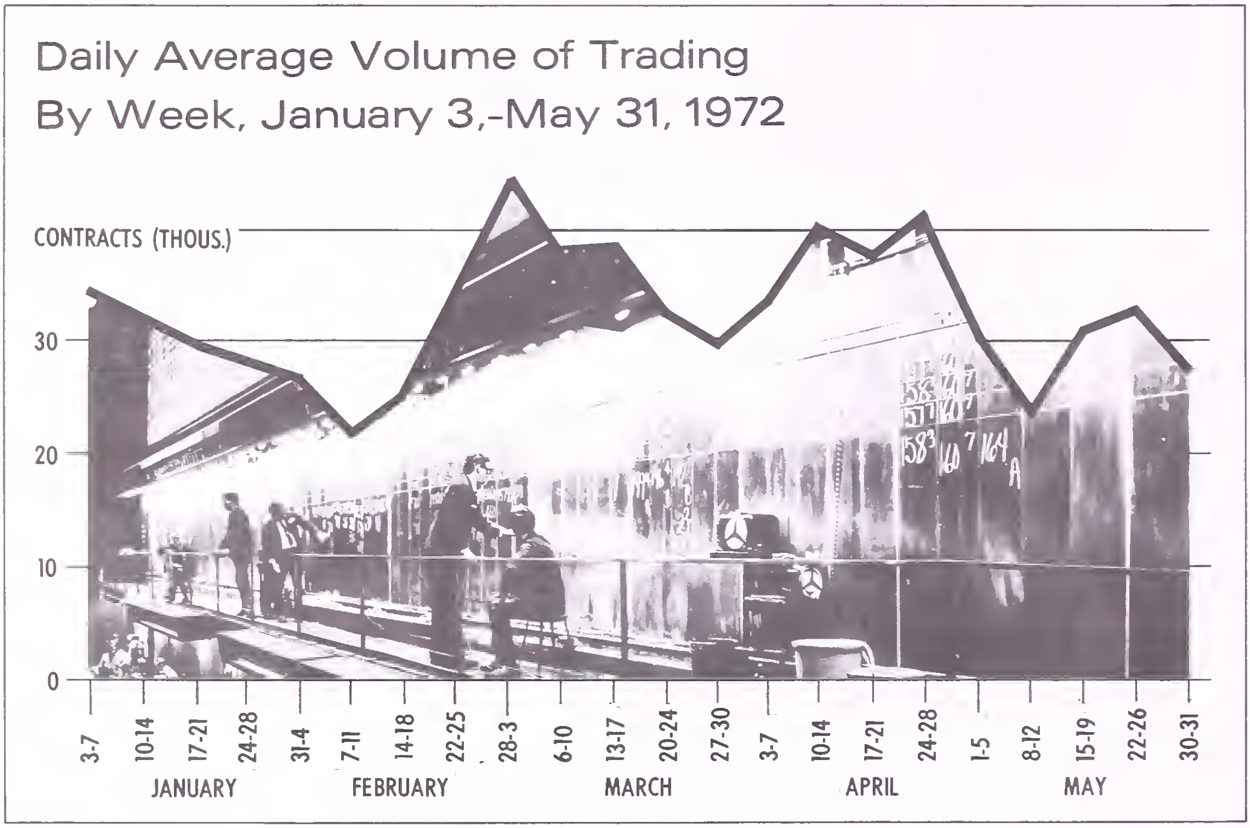

Figure 2

Close-out Trading Volume

Total volume

Contracts closed out during the survey periods totaled 533,770, an average of 28,093 contracts per trading day. The breakdown of that volume by survey period is shown below:

Dates	Trading days	Close-out trades	Average daily close-out trades
		Number	
Mar. 20-30	9	265,606	29,512
May 1-12	10	268,164	26,816
Both periods	19	533,770	28,093

Table 11 compares total volume of trading with close-out volume. Three columns of figures are shown for total volume. Column 1 shows the published data on total trading--that is, the volume of trading as a total of all sales (or all purchases). In column 1, it is assumed that because there is a seller and a buyer of every futures contract, the total of all purchases is equal to the total of all sales. However, in this study, close-out volume is the total of individual buys and sells that closed out open contracts. Therefore, in column 2, the column 1 data are doubled to reflect combined purchases and sales. Because deliveries also close out open contracts, they are included in the close-out volume data. The total volume figures in column 4 reflect column 2 data plus data on deliveries.

Average daily volume (including deliveries and close-out volume) are compared below. On a daily basis, close-out volume averaged 47.5 percent of adjusted total volume:

Dates	Average daily volume of --		Close-out trading as a percent of all trading
	Trading and deliveries	Close-out trading	
	- - - - Number - - - -		- - - - Percent - - - -
Mar. 20-30	63,324	29,512	46.6
May 1-12	55,330	26,816	48.5
Both periods	59,117	28,093	47.5

In the long run, the volume of trading (together with deliveries) and close-out volume must be equal for each futures contract, but not necessarily during short periods such as the survey periods used in this report.

Table 11--Volume of trading, deliveries, and close-out trading, Chicago Board of Trade, by commodity, survey periods, 1972

Period and commodity	Volume of trading		Deliveries	Total purchases, sales, and deliveries	Volume of close-out trades
	Published data on sales 1/	Combined purchases and sales			
	Number of contracts				
Mar. 20-30, 1972:					
Wheat	12,711	25,422	74	25,496	13,553
Corn	32,299	64,598	723	65,321	27,556
Oats	1,320	2,640	27	2,667	1,357
Soybeans	156,570	313,140	790	313,930	130,506
Soybean oil	36,280	72,560	210	72,770	27,984
Soybean meal	14,850	29,700	335	30,035	12,404
Broilers	756	1,512	144	1,656	883
Plywood	2,079	4,158	44	4,202	1,154
Silver	26,920	53,840	--	53,840	10,759
Not specified 2/	--	--	--	--	39,450
Total	283,785	567,570	2,347	569,917	265,606
May 1-12, 1972:					
Wheat	12,036	24,072	5	24,077	12,232
Corn	50,710	101,420	7,745	109,165	57,146
Oats	1,205	2,410	75	2,485	1,744
Soybeans	133,363	266,726	3,162	269,888	130,081
Soybean oil	32,144	64,288	1,886	66,174	30,497
Soybean meal	18,258	36,516	194	36,710	16,835
Broilers	710	1,420	--	1,420	640
Plywood	3,782	7,564	945	8,509	4,591
Silver	17,436	34,872	--	34,872	11,088
Not specified 2/	--	--	--	--	3,310
Total	269,644	539,288	14,012	553,300	268,164
Both periods:					
Wheat	24,747	49,494	79	49,573	25,785
Corn	83,009	166,018	8,468	174,486	84,702
Oats	2,525	5,050	102	5,152	3,101
Soybeans	289,933	579,866	3,952	583,818	260,587
Soybean oil	68,424	136,848	2,096	138,944	58,481
Soybean meal	33,108	66,216	529	66,745	29,239
Broilers	1,466	2,932	144	3,076	1,523
Plywood	5,861	11,722	989	12,711	5,745
Silver	44,356	88,712	--	88,712	21,847
Not specified 2/	--	--	--	--	42,760
Total	553,429	1,106,858	16,359	1,123,217	533,770

1/ One side of transaction only as published by the CEA and the Chicago Board of Trade.
2/ Some firms did not specify the commodities traded.

Source: Compiled from CEA data and information supplied by the Chicago Board of Trade and the Board of Trade Clearing Corporation.

Trading of members and nonmembers

Members accounted for nearly 79 percent of all close-out trades during the combined survey periods, and nonmembers accounted for the remaining 21 percent. The relative importance of member trading varied between the March and May surveys, as shown below (and in table 12):

Dates	Close-out trades		Percentage distribution	
	Members	Nonmembers	Members	Nonmembers
	Number		Percent	
Mar. 20-30	199,045	66,561	74.9	25.1
May 1-12	220,587	47,577	82.3	17.7
Both periods....	419,632	114,138	78.6	21.4

Trading by type of clearing firm

The largest volume of close-out trades was cleared by commodity houses--firms specializing in commodity futures brokerage (table 12). During the two survey periods combined, they cleared about 58 percent of all close-out trades. Wirehouses cleared the next greatest volume (16 percent) and were followed in importance by commercial firms with customers (14 percent) and sole proprietorships without customers (11.5 percent).

Results of the two surveys confirm that members and nonmembers tend to trade through different types of clearing firms. For both periods combined, almost 65 percent of members' trades was cleared through commodity houses (table 13 and fig. 3). These firms clear large volumes of trading for professional speculators trading on the exchange floor. Frequently, the partners or officers of these commodity houses are floor traders who clear a substantial volume of trading through their own firms.

Commercial firms with customers and sole proprietorships were about equally important in handling member business for the combined period, but their shares of about 15 percent each were far behind the 65-percent share held by commodity houses. The relative importance of commercial firms and sole proprietorships shifted between the March and May surveys: the commercial firms handled about 4 percent less trades than sole proprietorships did in March and 4 percent more in May.

Although wirehouses cleared relatively few trades for members, they cleared most nonmember trading. During the two survey periods, nonmembers cleared 58 percent of their trading through wirehouses and about 32 percent through commodity houses, with only 10 percent going through commercial firms handling customer business.

Table 12--Volume and percentage distribution of close-out trades, Chicago Board of Trade, by member and nonmember trade and by type of clearing firm, survey periods, 1972

Period and type of clearing firm	Firms reporting	Close-out trades			Percentage distribution		
		Members	Nonmembers	Total	Members	Nonmembers	Total
		Number			Percent		
Mar. 20-30, 1972:							
Wirehouses	21	9,158	41,026	50,184	3.45	15.44	18.89
Commodity houses	41	125,984	19,770	145,754	47.43	7.45	54.88
Commercials with customers	11	27,333	5,765	33,098	10.29	2.17	12.46
Sole proprietorships	31	34,654	--	34,654	13.05	--	13.05
Commercials without customers	5	1,916	--	1,916	.72	--	.72
Total	109	199,045	66,561	265,606	74.94	25.06	100.00
May 1-12, 1972:							
Wirehouses	21	9,899	25,375	35,274	3.69	9.46	13.15
Commodity houses	42	145,401	16,218	161,619	54.22	6.05	60.27
Commercials with customers	12	35,545	5,984	41,529	13.26	2.23	15.49
Sole proprietorships	34	26,813	--	26,813	10.00	--	10.00
Commercials without customers	4	2,929	--	2,929	1.09	--	1.09
Total	113	220,587	47,577	268,164	82.26	17.74	100.00
Both periods:							
Wirehouses	21	19,057	66,401	85,458	3.57	12.44	16.01
Commodity houses	42	271,385	35,988	307,373	50.84	6.74	57.58
Commercials with customers	12	62,878	11,749	74,627	11.78	2.20	13.98
Sole proprietorships	34	61,467	--	61,467	11.52	--	11.52
Commercials without customers	5	4,845	--	4,845	.91	--	.91
Total	114	419,632	114,138	533,770	78.62	21.38	100.00

Table 13--Distribution of member and nonmember close-out trades, Chicago Board of Trade, by type of clearing firm, survey periods, 1972

Period and type of close-out trade	Share of trade being cleared by--					
	Wire-houses	Commodity houses	Commercials with customers	Sole proprietor-ships	Commercials without customers	Total
	Percent					
Mar. 20-30, 1972:						
Members' trade	4.6	63.3	13.7	17.4	1.0	100.0
Nonmembers' trade	61.6	29.7	8.7			100.0
Share of total close-out trades	(18.9)	(54.9)	(12.5)	(13.0)	(.7)	(100.0)
May 1-12, 1972:						
Members' trade	4.5	65.9	16.1	12.2	1.3	100.0
Nonmembers' trade	53.3	34.1	12.6			100.0
Share of total close-out trades	(13.1)	(60.3)	(15.5)	(10.0)	(1.1)	(100.0)
Both periods:						
Members' trade	4.5	64.7	15.0	14.6	1.2	100.0
Nonmembers' trade	58.2	31.5	10.3			100.0
Share of total close-out trades	(16.0)	(57.6)	(14.0)	(11.5)	(.9)	(100.0)

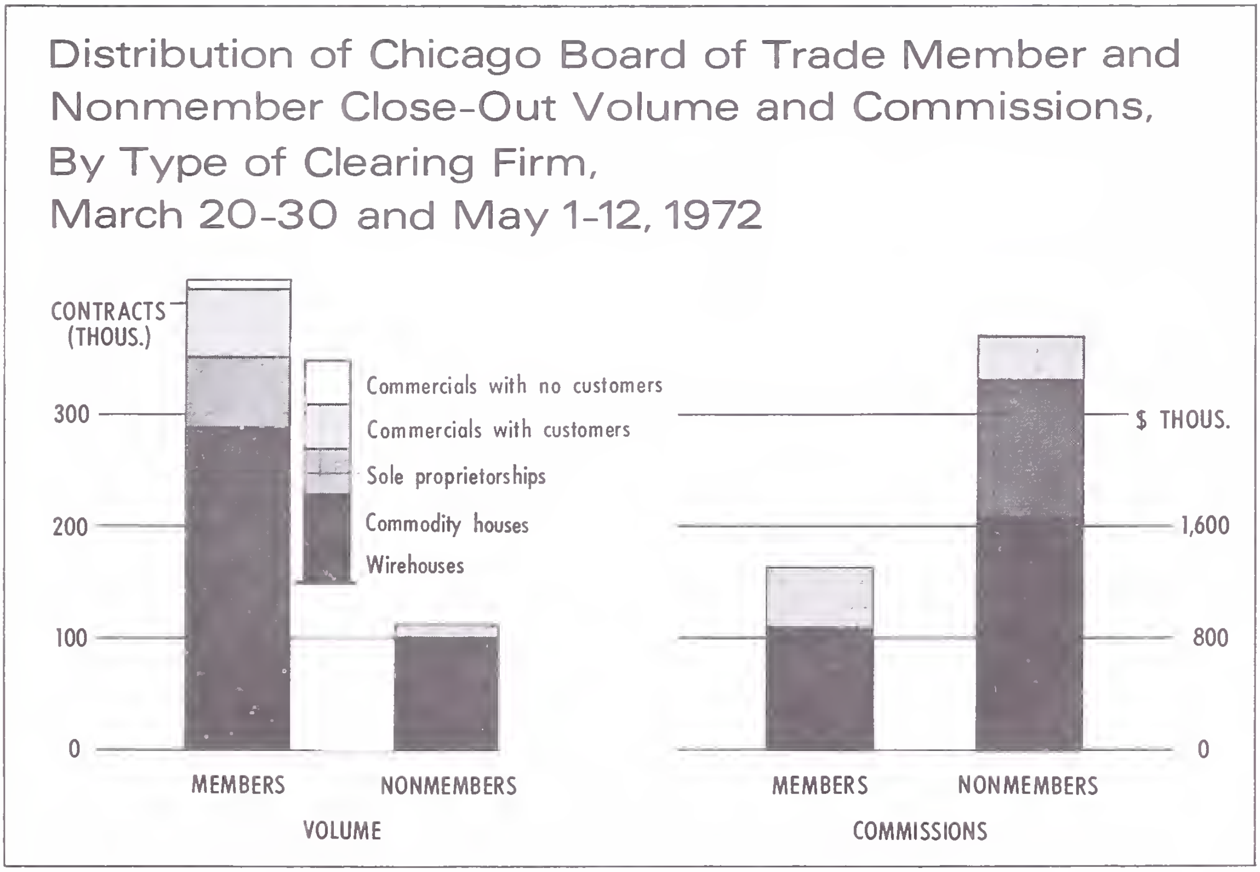

Figure 3

Table 14 shows how all the clearances of close-out trades were divided between members and nonmembers. For both survey periods combined, about 78 percent of the trades closed out by wirehouses was for nonmembers, while 88 percent of the business of commodity houses was for members (including trading of partners). Commercial firms also showed high percentages of member volume, but much of it was their own trading.

Table 14--Distribution of clearing firms' clearances of close-out trades, by member and nonmember traders, Chicago Board of Trade, survey periods, 1972

Period and type of clearing firm	Share of close-out trades--		Total
	Members	Nonmembers	
		Percent	
Mar. 20-30, 1972:			
Wirehouses	18.2	81.8	100.0
Commodity houses	86.4	13.6	100.0
Commercials with customers	82.6	17.4	100.0
Sole proprietorships	100.0	0	100.0
Commercials without customers	100.0	0	100.0
May 1-12, 1972:			
Wirehouses	28.1	71.9	100.0
Commodity houses	90.0	10.0	100.0
Commercials with customers	85.6	14.4	100.0
Sole proprietorships	100.0	0	100.0
Commercials without customers	100.0	0	100.0
Both periods:			
Wirehouses	22.3	77.7	100.0
Commodity houses	88.3	11.7	100.0
Commercials with customers	84.3	15.7	100.0
Sole proprietorships	100.0	0	100.0
Commercials without customers	100.0	0	100.0

The specialization of firms in member or nonmember business is also illustrated in table 15. Of the 21 wirehouses, all but one did over 60 percent of their business for nonmembers. In contrast, of the 42 commodity houses, only 14 did over 20 percent of their business for nonmembers. Commercial firms with customers also did low proportions of nonmember volume.

Table 15--Distribution of clearing firms by percentage of their total volume closed out for members and nonmembers, Chicago Board of Trade, survey periods, 1972

Item	Wire-houses	Commodity houses	Commer-cials with: customers	Total
	Number			
Firms with clearances for member trades accounting for--				
0-20 percent of all close-out trades	11	1	0	12
21-40 percent of all " " "	9	2	0	11
41-60 percent of all " " "	1	4	1	6
61-80 percent of all " " "	0	7	3	10
81-100 percent of all " " "	0	28	8	36
Total firms	21	42	12	75
Firms with clearances for nonmember trades accounting for--				
0-20 percent of all close-out trades	0	28	8	36
21-40 percent of all " " "	0	7	3	10
41-60 percent of all " " "	1	4	1	6
61-80 percent of all " " "	9	2	0	11
81-100 percent of all " " "	11	1	0	12
Total firms	21	42	12	75

Volume of trading by commodity

The detailed information on volume of close-out trading by commodity included in tables 16 and 17 indicates that members and nonmembers tended to concentrate their trading in the same commodities. However, some minor differences existed, as indicated below:

Commodity	Relative importance of commodities in close-out trading of members and nonmembers during combined survey periods	
	Members	Nonmembers
	Percent	
Soybeans	49.2	47.4
Corn	17.2	11.1
Soybean oil	11.3	9.7
Soybean meal	5.9	3.9
Wheat	4.5	6.1
Silver	4.4	2.8
Plywood	.7	2.6
Others and those not specified	6.8	16.4
Total	100.0	100.0

Members did slightly more of their trading in soybeans, soybean oil and meal, corn, and silver than did nonmembers. Nonmembers did a greater proportion of their trading in wheat and plywood than did members. Members, accounting for almost 79 percent of total close-out volume, did the predominant share of trading in most commodities. Only in broilers and plywood did nonmember volume amount to more than 30 percent of total close-out volume. In plywood, nonmembers accounted for 52 percent of the total volume.

Table 16--Volume and percentage distribution of close-out trading, Chicago Board of Trade, by member and nonmember trades and by commodity, survey periods, 1972

Period and commodity	Close-out trades			Percentage distribution		
	Members	Nonmembers	Total	Members	Nonmembers	Total
	Number			Percent		
Mar. 20-30, 1972:						
Wheat	9,835	3,718	13,553	72.6	27.4	100.0
Corn	22,441	5,115	27,556	81.4	18.6	100.0
Oats	861	496	1,357	63.4	36.6	100.0
Soybeans	100,433	30,073	130,506	77.0	23.0	100.0
Soybean oil	21,841	6,143	27,984	78.0	22.0	100.0
Soybean meal	10,534	1,870	12,404	84.9	15.1	100.0
Broilers	559	324	883	63.3	36.7	100.0
Plywood	474	680	1,154	41.1	58.9	100.0
Silver	8,932	1,827	10,759	83.0	17.0	100.0
Not specified 1/	23,135	16,315	39,450	58.6	41.4	100.0
Total	199,045	66,561	265,606	74.9	25.1	100.0
May 1-12, 1972:						
Wheat	8,964	3,268	12,232	73.3	26.7	100.0
Corn	49,644	7,502	57,146	86.9	13.1	100.0
Oats	1,330	414	1,744	76.3	23.7	100.0
Soybeans	106,037	24,044	130,081	81.5	18.5	100.0
Soybean oil	25,604	4,893	30,497	84.0	16.0	100.0
Soybean meal	14,213	2,622	16,835	84.4	15.6	100.0
Broilers	332	308	640	51.9	48.1	100.0
Plywood	2,284	2,307	4,591	49.7	50.3	100.0
Silver	9,667	1,421	11,088	87.2	12.8	100.0
Not specified 1/	2,512	798	3,310	75.9	24.1	100.0
Total	220,587	47,577	268,164	82.3	17.7	100.0
Both periods:						
Wheat	18,799	6,986	25,785	72.9	27.1	100.0
Corn	72,085	12,617	84,702	85.1	14.9	100.0
Oats	2,191	910	3,101	70.7	29.3	100.0
Soybeans	206,470	54,117	260,587	79.2	20.8	100.0
Soybean oil	47,445	11,036	58,481	81.1	18.9	100.0
Soybean meal	24,747	4,492	29,239	84.6	15.4	100.0
Broilers	891	632	1,523	58.5	41.5	100.0
Plywood	2,758	2,987	5,745	48.0	52.0	100.0
Silver	18,599	3,248	21,847	85.1	14.9	100.0
Not specified 1/	25,647	17,113	42,760	60.0	40.0	100.0
Total	419,632	114,138	533,770	78.6	21.4	100.0

1/ More firms supplied data by commodity for the May period than for the March period.

Table 17--Percentage distribution of member and nonmember close-out trades among commodities, Chicago Board of Trade, survey periods, 1972

Period and commodity	Commodity's share of trade of -- Members	Commodity's share of trade of -- Nonmembers	Commodity's share of total volume
	Percent		
Mar. 20-30, 1972:			
Wheat	4.9	5.6	5.1
Corn	11.3	7.7	10.4
Oats	.4	.8	.5
Soybeans	50.5	45.2	49.1
Soybean oil	11.0	9.2	10.5
Soybean meal	5.3	2.8	4.7
Broilers	.3	.5	.3
Plywood	.2	1.0	.4
Silver	4.5	2.7	4.1
Not specified 1/	11.6	24.5	14.9
Total	100.0	100.0	100.0
May 1-12, 1972:			
Wheat	4.1	6.9	4.6
Corn	22.5	15.8	21.3
Oats	.6	.9	.7
Soybeans	48.1	50.5	48.5
Soybean oil	11.6	10.3	11.4
Soybean meal	6.4	5.5	6.3
Broilers	.2	.6	.2
Plywood	1.0	4.8	1.7
Silver	4.4	3.0	4.1
Not specified 1/	1.1	1.7	1.2
Total	100.0	100.0	100.0
Both periods:			
Wheat	4.5	6.1	4.8
Corn	17.2	11.1	15.9
Oats	.5	.8	.6
Soybeans	49.2	47.4	48.8
Soybean oil	11.3	9.7	10.9
Soybean meal	5.9	3.9	5.5
Broilers	.2	.6	.3
Plywood	.7	2.6	1.1
Silver	4.4	2.8	4.1
Not specified 1/	6.1	15.0	8.0
Total	100.0	100.0	100.0

1/ More firms supplied data by commodity for the May period than for the March period.

Volume of trading by commission rate

When the volume of close-out trading is classified by the commission rate involved, the classification reveals that no commissions, or nominal commissions for accounting purposes, were charged on 45 percent of members' trades, or on about 35 percent of all trading. 8/

The percentage of close-out trading by important rate categories during the survey periods is shown in the tabulation below (and in more detail in table 18).

Commission-rate category	Percent of trading done by--		
	Members	Nonmembers	All traders
		Percent	
No commission charged	44.9	1/ 0.6	35.5
Regular	13.7	69.6	25.6
Day and floor trades	28.0	15.4	25.3
Scratch trades 2/	9.5	--	7.5
Omnibus accounts	2.9	4.8	3.3
All other rates	1.0	9.6	2.8
Total	100.0	100.0	100.0

1/ If a nonmember establishes a long position, takes delivery, then establishes a short position and redelivers the same quantity of the commodity in the same delivery month, there is no commission charged on the second round-turn transaction.

2/ The March survey period did not include a specific request for the volume of scratch trades; they were included in the member day-trade category. The volume was estimated, however, by using a system of simultaneous equations. The volume of scratch trades was specifically requested for the May period.

About two-thirds of total close-out trading volume for the combined periods was in the commission-rate categories used primarily by members--especially floor traders. In addition to the 35 percent in the no commission charged category, 25 percent was in day and floor trades and over 7 percent in scratch trades. Almost 26 percent of total close-out volume for the combined periods was in the regular trades category. Minimal proportions of total volume consisted of spreads and trading by foreign accounts. Most of the trading at each of these rates was by nonmembers.

8/ Clearing members need not charge commissions for trades of their own firm or for trades of members who have assigned their memberships to the firm under Rule 226 of Rules and Regulations of the Chicago Board of Trade. This category includes the 34 sole proprietorships and the 5 commercials without customers which cleared trades during the survey period.

Table 18--Volume and percentage distribution of close-out trading, Chicago Board of Trade, by member and nonmember trade and by type of commission rate, survey periods, 1972

Type of commission rate	Close-out trades			Percentage distribution		
	Members	Nonmembers	Total	Members	Nonmembers	Total
	- - - - - Number - - - - -			- - - - - Percent - - - -		
Mar. 20-30, 1972:						
Regular trades	25,320	44,645	69,965	12.7	67.1	26.3
Regular, foreign	676	1,321	1,997	.3	2.0	.7
Spreads	1,107	4,885	5,992	.6	7.3	2.3
Spreads, foreign	7	99	106	1/	.2	1/
Day & floor trades	60,334	11,263	71,597	30.3	16.9	27.0
Scratch trades 2/	21,000	--	21,000	10.6	--	7.9
Warehouse receipts	127	15	142	.1	1/	.1
Cash sales	286	--	286	.1	--	.1
No commission charged	85,562	5	85,567	43.0	1/	32.2
Omnibus accounts	4,626	4,328	8,954	2.3	6.5	3.4
Total	199,045	66,561	265,606	100.0	100.0	100.0
May 1-12, 1972:						
Regular trades	32,077	34,760	66,837	14.5	73.0	24.9
Regular, foreign	422	1,418	1,840	.2	3.0	.7
Spreads	1,378	2,504	3,882	.6	5.3	1.5
Spreads, foreign	--	126	126	--	.3	1/
Day & floor trades	57,052	6,334	63,386	25.9	13.3	23.6
Scratch trades	19,098	--	19,098	8.6	--	7.1
Warehouse receipts	121	581	702	.1	1.2	.3
Cash sales	--	25	25	--	.1	1/
No commission charged	103,032	643	103,675	46.7	1.3	38.7
Omnibus accounts	7,407	1,186	8,593	3.4	2.5	3.2
Total	220,587	47,577	268,164	100.0	100.0	100.0
Both periods:						
Regular trades	57,397	79,405	136,802	13.7	69.6	25.6
Regular, foreign	1,098	2,739	3,837	.2	2.4	.7
Spreads	2,485	7,389	9,874	.6	6.5	1.8
Spreads, foreign	7	225	232	1/	.2	1/
Day & floor trades	117,386	17,597	134,983	28.0	15.4	25.3
Scratch trades	40,098	--	40,098	9.5	--	7.5
Warehouse receipts	248	596	844	.1	.5	.2
Cash sales	286	25	311	.1	1/	.1
No commission charged	188,594	648	189,242	44.9	.6	35.5
Omnibus accounts	12,033	5,514	17,547	2.9	4.8	3.3
Total	419,632	114,138	533,770	100.0	100.0	100.0

1/ Less than 0.05 percent.
2/ Estimated from data reported.

Member trading was conducted at different, and significantly lower, commission rates than that of nonmembers. About 45 percent of member volume was not subject to commissions, 28 percent was at the day and floor trade rates, and 9.5 percent consisted of scratch trades. Regular trades accounted for less than 14 percent of member volume. In contrast, nonmember volume primarily consisted of regular trades (70 percent). Day and floor trades amounted to 15 percent of total nonmember volume, while spreads were about 6 percent.

Figure 4 shows the distribution of close-out trading among the various commission-rate categories for each type of clearing firm. Table 19 shows this distribution by member and nonmember trades. Nonmember volume was distributed similarly for each of the three types of firms clearing nonmember trades. In each case, over two-thirds of nonmember volume was cleared at the regular rate. Most of the remaining nonmember volume consisted of day trades and spreads.

Distribution of
Close-Out Volume,
By Type of Clearing Firm and
Commission-Rate Category,
Chicago Board of Trade,
March 20-30 and May 1-12, 1972

Figure 4

Table 19--Volume and percentage distribution of close-out trading, Chicago Board of Trade, by type of clearing firm and member or nonmember customer, and by type of commission rate, Mar. 20-30 and May 1-12, 1972 1/

Type of clearing firm and commission rate	Trades for-- Members	Nonmembers	Total	Percentage distribution of trades for -- Members	Nonmembers	Total
	---- Number ----			--- Percent ---		
Wirehouses:						
Regular trades	11,679	46,177	57,856	61.3	69.5	67.7
Regular, foreign	360	2,568	2,938	1.9	3.9	3.4
Spreads	1,653	3,902	5,555	8.7	5.9	6.5
Spreads, foreign	7	220	227	0	0.3	0.3
Day & floor trades	801	10,161	10,962	4.2	15.3	12.9
Scratch trades	199	0	199	1.0	--	0.2
Warehouse receipts	38	567	605	0.2	0.9	0.7
Cash sales	10	25	35	0.1	--	0
No commission charged	515	592	1,107	2.7	0.9	1.3
Omnibus accounts	3,795	2,189	5,984	19.9	3.3	7.0
Total	19,057	66,401	85,458	100.0	100.0	100.0
Commodity houses:						
Regular trades	20,149	24,282	44,431	7.4	67.5	14.4
Regular, foreign	0	125	125	--	0.3	0
Spreads	716	2,837	3,553	0.3	7.9	1.2
Spreads, foreign	0	3	3	--	--	0
Day & floor trades	115,641	5,388	121,029	42.6	15.0	39.4
Scratch trades	39,808	0	39,808	14.7	--	12.9
Warehouse receipts	210	29	239	0.1	0.1	0.1
Cash sales	244	0	244	0.1	--	0.1
No commission charged	87,471	17	87,488	32.2	0	28.5
Omnibus accounts	7,146	3,307	10,453	2.6	9.2	3.4
Total	271,385	35,988	307,373	100.0	100.0	100.0
Commercials with customers:						
Regular trades	25,569	8,946	34,515	40.6	76.2	46.3
Regular, foreign	738	46	784	1.2	0.4	1.1
Spreads	116	650	766	0.2	5.5	1.0
Spreads, foreign	0	2	2	--	0	0
Day & floor trades	944	2,048	2,992	1.5	17.4	4.0
Scratch trades	91	0	91	0.1	--	0.1
Warehouse receipts	--	--	--	--	--	--
Cash sales	32	0	32	0.1	--	0
No commission charged	34,320	39	34,359	54.6	0.3	46.0
Omnibus accounts	1,068	18	1,086	1.7	0.2	1.5
Total	62,878	11,749	74,627	100.0	100.0	100.0
Sole proprietorships:						
No commission charged	61,467	--	61,467	100	100	100
Commercials without customers:						
No commission charged	4,845	--	4,845	100	100	100
Grand total	419,632	114,138	533,770	100	100	100

1/ Data are for both periods combined.

In contrast, member trading was distributed differently for each type of clearing firm. Members trading through wirehouses cleared most of their trading at the same rate categories as did nonmembers, except that they had relatively fewer day trades and more spreads than nonmembers. For commodity houses, about 90 percent of member volume was in the commission-rate categories primarily used by floor traders--day and floor trades, scratch trades, and trades at no commission. Commercial firms with customers cleared almost all of their member volume as regular trades (40.6 percent) or at no commission (54.6 percent). The first category was for customers, while the second was the firms' own trading. Since neither commercial firms without customers nor sole proprietorships clear trades for customers, all trades by these firms were cleared at no commission.

These data provide an indication of the differences in the clientele of the different clearing firms. These differences may be summarized as follows:

> Wirehouses specialize in clearing trades for nonmembers and for members not trading for themselves on the exchange floor. Of their clearances, over three-fourths were for nonmembers, and they accounted for 58 percent of all nonmember volume. Relatively little of the member volume cleared by wirehouses was at the commission rates used by floor traders. Similarly, only a small volume was in the no-commission category that applies to proprietory accounts.
>
> Commodity houses specialize in clearing trades for floor traders. Many of these firms also clear large volumes at no commission because the officers or partners of the firms are themselves floor traders. About 88 percent of the volume cleared by these firms was for members, accounting for almost 65 percent of total member volume. About 90 percent of this member volume was in the commission-rate categories used by floor traders.
>
> Commercials with customers cleared about 84 percent of their volume for members. Over half of this member volume was at no commission, which indicates that these trades were for the firm's account. Since most of the remaining volume was at the regular rate, presumably it was for members not present on the exchange floor. These firms cleared relatively little volume at the commission rates used by floor traders. About 16 percent of their total volume was for nonmembers.
>
> Sole proprietors and commercials without customers only clear their own trading. The former firms consist of floor traders and scalpers, whereas the latter are basically hedgers.

V--AMOUNT AND SOURCE OF COMMISSION INCOME

During the two survey periods combined, clearing members of the Chicago Board of Trade earned slightly more than $4.3 million from close-out trading of futures contracts (table 20). Of this 19-day total, customers who were not members of the board accounted for 69 percent and customers who were members accounted for 31 percent. For the March 20-30 survey period, these proportions were 74 and 26 percent, respectively, and for the May 1-12 period, they were 64 and 36 percent.

A major difference between the two survey periods was the higher proportion of trading done by members in the May period (82 percent of all trading versus 75 percent in March) and a relatively sharp drop in daily commission income. The reduction in commission income during the May survey was caused by a sharp drop in daily volume of close-out trading by nonmembers (who pay the highest rates of commission).

If the average for the 19 days is typical with respect to average rate of commission per contract, traders of commodity futures contracts on the board paid $69 million and $78 million in commissions and brokerage fees in 1971 and 1972, respectively. 9/ Average rates of commission paid per contract during the survey periods were as follows:

Dates	Average rate of commission paid per contract by--		
	Members	Nonmembers	Total
		Dollars	
Mar. 20-30	2.90	25.13	8.47
May 1-12	3.36	27.62	7.67
Both periods	3.14	26.17	8.07

9/ This estimate is derived as follows: For 1971--8,533,549 contracts x $8.07 per contract = $68,900,000; for 1972--9,676,894 contracts x $8.07 per contract = $78,092,535.

Table 20--Amount and percentage distribution of commissions received, Chicago Board of Trade, by type of clearing firm and member or nonmember customer, survey periods, 1972

Period and type of clearing firm	Firms reporting	Commission received from closed out trades for--			Percentage distribution		
		Members	Nonmembers	Total	Members	Nonmembers	Total
	Number	Dollars			Percent		
Mar. 20-30, 1972:							
Wirehouses	21	113,386.30	976,863.80	1,090,250.10	5.1	43.4	48.5
Commodity houses	41	267,557.90	532,588.10	800,146.00	11.9	23.7	35.6
Commercials with customers	11	196,089.90	162,912.25	359,002.15	8.7	7.2	15.9
Sole proprietorships	31	---	---	---	---	---	---
Commercials without customers	5	---	---	---	---	---	---
Total	109	577,034.10	1,672,364.15	2,249,398.25	25.7	74.3	100.0
May 1-12, 1972:							
Wirehouses	21	118,098.50	700,839.00	818,937.50	5.8	34.1	39.9
Commodity houses	42	403,867.60	456,102.12	859,969.72	19.6	22.2	41.8
Commercials with customers	12	220,203.95	157,202.35	377,406.30	10.7	7.6	18.3
Sole proprietorships	34	---	---	---	---	---	---
Commercials without customers	4	---	---	---	---	---	---
Total	113	742,170.05	1,314,143.47	2,056,313.52	36.1	63.9	100.0
Both periods:							
Wirehouses	21	231,484.80	1,677,702.80	1,909,187.60	5.3	39.0	44.3
Commodity houses	42	671,425.50	988,690.22	1,660,115.72	15.6	23.0	38.6
Commercials with customers	12	416,293.85	320,114.60	736,408.45	9.7	7.4	17.1
Sole proprietorships	34	---	---	---	---	---	---
Commercials without customers	5	---	---	---	---	---	---
Total	114	1,319,204.15	2,986,507.62	4,305,711.77	30.6	69.4	100.0

Commission Income by Commission-Rate Categories

The amount of commission income derived from each major rate category is presented in table 21. The most striking fact revealed by these survey data is the importance of nonmember trading at regular rates as a source of commission income. More income was derived from nonmembers than members in every rate category except omnibus accounts.

In terms of percentages, 75 percent of all commission income came from trades at the regular rate. Day and floor trades yielded 12 percent of the total income, but no other rate category yielded as much as 6 percent.

Figure 5 illustrates the division of total commission income by rate categories for the different types of clearing firms. The relative importance of the regular rate is apparent for each type of firm.

Distribution of
Commission Income,
By Type of Clearing Firm and
Commission-Rate Category,
Chicago Board of Trade,
March 20-30 and May 1-12, 1972

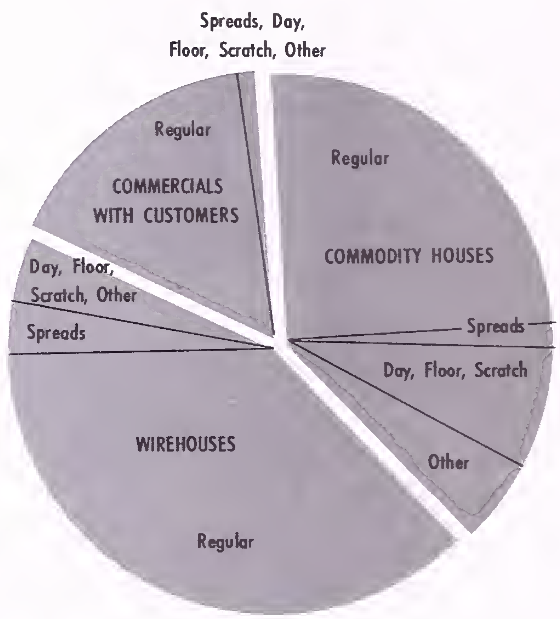

Figure 5

Table 21--Amount and percentage distribution of commissions received, Chicago Board of Trade, by type of commission rate and by member or nonmember trades, survey periods, 1972

Period and type of commission rate	Commission received from closed out trades for--			Percentage distribution		
	Members	Nonmembers	Total	Members	Nonmembers	Total
	Dollars			Percent		
Mar. 20-30, 1972:						
Regular trades	379,587.00	1,273,195.10	1,652,782.10	16.9	56.6	73.5
Regular, foreign	12,109.00	43,348.00	55,457.00	0.6	1.9	2.5
Spreads	10,090.00	97,803.00	107,893.00	0.5	4.3	4.8
Spreads, foreign	102.50	2,379.50	2,482.00	0	0.1	0.1
Day & floor trades	102,673.15	186,382.50	289,055.65	4.5	8.3	12.8
Scratch trades 1/	2,100.00	--	2,100.00	0.1	--	0.1
Warehouse receipts	214.50	420.00	634.50	0	0	0
Cash sales	3,970.50	--	3,970.50	0.2	--	0.2
No commission charged	--	--	--	--	--	--
Omnibus accounts	66,187.45	68,836.05	135,023.50	2.9	3.1	6.0
Total	577,034.10	1,672,364.15	2,249,398.25	25.7	74.3	100.0
May 1-12, 1972:						
Regular trades	532,663.00	1,044,385.12	1,577,048.12	25.9	50.8	76.7
Regular, foreign	7,573.00	46,574.50	54,147.50	0.3	2.3	2.6
Spreads	18,724.00	48,954.00	67,678.00	0.9	2.4	3.3
Spreads, foreign	--	3,148.00	3,148.00	--	0.2	0.2
Day & floor trades	99,996.40	127,694.00	227,690.40	4.9	6.2	11.1
Scratch trades	1,909.80	--	1,909.80	0.1	--	0.1
Warehouse receipts	1,650.60	8,916.50	10,567.10	0.1	0.4	0.5
Cash sales	--	753.00	753.00	--	0	0
No commission charged	--	--	--	--	--	--
Omnibus accounts	79,653.25	33,718.35	113,371.60	3.9	1.6	5.5
Total	742,170.05	1,314,143.47	2,056,313.52	36.1	63.9	100.0
Both periods:						
Regular trades	912,250.00	2,317,580.22	3,229,830.22	21.2	53.8	75.0
Regular, foreign	19,682.00	89,922.50	109,604.50	0.4	2.1	2.5
Spreads	28,814.00	146,757.00	175,571.00	0.7	3.4	4.1
Spreads, foreign	102.50	5,527.50	5,630.00	0	0.1	0.1
Day & floor trades	202,669.55	314,076.50	516,746.05	4.7	7.3	12.0
Scratch trades	4,009.80	--	4,009.80	0.1	--	0.1
Warehouse receipts	1,865.10	9,336.50	11,201.60	0	0.3	0.3
Cash sales	3,970.50	753.00	4,723.50	0.1	0	0.1
No commission charged	--	--	--	--	--	--
Omnibus accounts	145,840.70	102,554.40	248,395.10	3.4	2.4	5.8
Total	1,319,204.15	2,986,507.62	4,305,711.77	30.6	69.4	100.0

1/ Estimated from data reported.

Commission Income by Type of Brokerage Firm

Wirehouses received more commission income from close-out trades during the combined survey periods than did any other type of brokerage firm. Their income of over $100,000 a trading day was 44 percent of the total (table 22). Commodity houses received over $87,000 a trading day (39 percent of the total), and commercials with customers received somewhat less than $39,000 a day (the remaining 17 percent).

Wirehouses received a greater share of the income during the combined period despite the fact that commodity houses cleared over three times as many contracts. This occurred because most of the trading volume cleared by wirehouses was for nonmembers and at the highest commission rates (see fig. 3). The greatest proportion of trades cleared by commodity houses was cleared at the lowest rates of commission--those used by floor traders. During the May period, wirehouses received less commission income than did commodity houses, primarily because member trading in May was higher than in the March period.

Table 22--Number of close-out trades cleared and commission income received, by type of clearing firm, Chicago Board of Trade, survey periods, 1972

Date and type of firm	Firms reporting	Close-out trades cleared	Commission income received
	Number	Number	Dollars
Mar. 20-30, 1972:			
Wirehouses........	21	50,184	1,090,250
Commodity houses..	41	145,754	800,146
Commercials with customers........	11	33,098	359,002
Total...........	73	229,036	2,249,398
May 1-12, 1972:			
Wirehouses........	21	35,274	818,938
Commodity houses..	42	161,619	859,970
Commercials with customers........	12	41,529	377,406
Total...........	75	238,422	2,056,314
Both periods:			
Wirehouses........	21	85,458	1,909,188
Commodity houses..	42	307,373	1,660,116
Commercials with customers........	12	74,627	736,408
Total...........	75	467,458	4,305,712

Commission Income From Commodity Futures Versus Total Commission Income of Wirehouses

Although wirehouses as a group received over 44 percent of the commissions paid on the Chicago Board of Trade during both survey periods, commodity brokerage accounts for only a small part of their commission income. This is illustrated by the tabulation below, which lists commissions reported by major securities firms that have public stockholders and file public reports on their operations:

Firm	Commission income: Year ending	Commission income: Total	Commission income: Commodities	Commission income: Commodities as percent of total
		1,000 dollars	1,000 dollars	Percent
Merrill Lynch, Pierce, Fenner & Smith, Inc.	Dec. 31, 1971	222,678	18,127	7.9
Bache & Co., Inc.	Jan. 31, 1971	86,055	10,462	12.9
Reynolds Securities, Inc.	Dec. 31, 1971	41,045	3,111	7.6
CBWL-Hayden Stone, Inc.	June 30, 1971	27,497	2,894	10.5
Paine, Webber, Jackson & Curtis, Inc.	Sept. 30, 1971	65,278	1,739	2.7
A. G. Edwards & Sons, Inc.	Feb. 28, 1971	20,689	1,253	6.1
Dean Witter & Co., Inc.	Aug. 31, 1971	81,172	1,245	1.5

VI--RATIOS OF CONCENTRATION IN VOLUME OF TRADING AND COMMISSION INCOME

Concentration ratios are usually used as an indicator of the competitive situation in an industry. Concentration in an industry is customarily measured by the percentage of the industry or market accounted for by the "Big Four," "Big Eight," and "Big Twenty" firms.

Concentration ratios were calculated for the major types of clearing members on the Chicago Board of Trade. Total volume of transactions closed out and total commission income collected were used as measures of size.

Concentration in Volume of Close-Out Trading

Indications are that the commodity futures brokerage business on the Chicago Board of Trade is not a very concentrated one. The "Big Four" and "Big Eight" clearing members, ranked according to the number of transactions closed out, accounted for a relatively small percentage (21 and 33 percent, respectively) of the total transactions during both survey periods (table 23). The 20 largest firms handled 55 percent of all close-out transactions. The four largest commodity houses accounted for 19 percent of the total trading volume, compared with 8 percent by the four largest wirehouses and 10 percent by the four largest commercials.

Table 23--Concentration ratios for volume of close-out trades, Chicago Board of Trade, by type of clearing firm, Mar. 20-30 and May 1-12, 1972

Type of firm	Proportion of trades during both periods closed out for--		
	All traders	Members	Nonmembers
		Percent	
Top 4 clearing members	20.8	24.4	7.8
Top 8 clearing members	32.6	35.5	21.9
Top 20 clearing members	55.3	58.3	44.4
Top 4 wirehouses	8.0	2.3	29.1
Top 4 commodity houses	19.4	24.2	2.0
Top 4 commercials	9.9	10.7	7.1

The "Big Four" wirehouses' share of nonmember trades was 29 percent, considerably more than that of the four largest commodity houses and four largest commercials. The four largest commodity houses, however, accounted for 24 percent of the trading by members, considerably more than the 11 percent handled by the four largest commercials and the 2 percent handled by the four largest wirehouses. The 20 largest clearing firms handled 58 percent of all member close-out business and 44 percent of such nonmember business.

Concentration in Commission Income

When clearing members were ranked according to amount of commission income received, the four largest firms accounted for 29 percent, the eight largest firms for 45 percent, and the 20 largest firms for 70 percent of total commission income from close-out trades (table 24). The four largest wirehouses received 27 percent of all commissions from nonmember trades, compared with 10 percent received by the four largest commercials and 15 percent by the four largest commodity houses. The four largest commercials, on the other hand, showed the highest concentration ratio of any clearing member (29 percent) with respect to proportion of commissions received from member trades.

Table 24--Concentration ratios for commission income received from close-out trades, Chicago Board of Trade, by type of clearing firm, Mar. 20-30 and May 1-12, 1972

Type of firm	Proportion of commission income during both periods accounted for by--		
	All trades	Member trades	Nonmembers
		Percent	
Top 4 clearing members	29.2	29.7	29.0
Top 8 clearing members	44.7	43.8	45.1
Top 20 clearing members	69.8	65.9	71.6
Top 4 wirehouses	21.7	8.6	27.4
Top 4 commodity houses	15.5	16.8	14.9
Top 4 commercials	15.9	29.2	10.0

Table 25 shows concentration in the value of shipments of selected manufacturing firms. Concentration among clearing members in the commodity futures industry on the Chicago Board of Trade was greater than in the prepared feeds and bread products industry, but considerably less than in soybean oil mill products or in such highly oligopolistic industries as automobiles and electronic computing equipment.

Table 25--Concentration ratios for value of shipments of selected manufacturers

Class of product	Firms	Share of value of shipments: Top 4 firms	Top 8 firms	Top 20 firms
	Number	Percent		
Flour & grain mill products	438	31	45	70
Prepared feeds	1,835	24	33	45
Bread, cake, and related products	3,445	25	36	45
Soybean oil mill products	60	55	73	90
Motor vehicles	107	93	98	99+
Electronic computing equipment except parts & attachments	134	72	90	98
Steel ingots	200	67	83	96

Source: U.S. Department of Commerce, Bureau of the Census, 1967 Census of Manufacturers, Concentration Ratios in Manufacturing, pts. 1 and 2.

These concentration ratios indicate that the commodity futures brokerage business on the Chicago Board of Trade is characterized by a large number of firms, none of which predominates in terms of commission income derived from member or nonmember trading, nor in terms of volume of transactions executed for members or nonmembers.

Concentration in commission income was greater for the top clearing firms on the Chicago Board of Trade than it was for the top securities firms on the New York Stock Exchange. This is shown in the following tabulation:

Type of income	Percent of commission income accounted for by-- Top 8 firms	Top 20 firms
	Percent	
Securities income 1/	27	44
Commodities income on the Chicago Board of Trade 2/	45	70

1/ Friend, Irwin, and Marshall E. Blume, The Consequences of Competitive Commission on the New York Stock Exchange, University of Pennsylvania, The Wharton School, Philadelphia, 1972, table 8.
2/ All clearing members, both survey periods.

VII--FTC STUDY OF COMMISSIONS AND TRADING ON THE CHICAGO BOARD OF TRADE

In volume VII of its 1926 report on the grain trade, the Federal Trade Commission (FTC) examined in detail the distribution of trading and commissions on the Chicago Board of Trade, by member and nonmember traders and by the various types of clearing firms. 10/ It is of interest to compare the findings of that study with this investigation to see the extent to which the commodity brokerage business on the Chicago Board of Trade has changed in the course of 50 years. Most of the data collected by the FTC reflected a period before Federal regulation of commodity exchanges or any direct activity by governmental agencies in grain marketing.

In addition to the FTC study, early reports of the Grain Futures Administration contain valuable information on the structure of the industry in the early 1920's. In 1922, when the Grain Futures Act providing for Federal supervision and regulation of grain exchanges was legislated, over 17 billion bushels of grain futures, about 88 percent of the U.S. total, were traded on the Chicago Board of Trade. 11/ By 1971, trading in the principal grains on the board had declined to approximately 13 billion bushels, amounting to 92 percent of total futures trading in those commodities. However, trading in a number of new commodities had appeared.

10/ U.S. Federal Trade Commission, Report of the Federal Trade Commission on the Grain Trade, 1926.
11/ Data on trading volume were compiled by the Grain Futures Administration from monthly reports which clearing members of the Chicago Board of Trade made to the U.S. Bureau of Internal Revenue in connection with the payment of a 2¢ per $100 tax on the sale of commodity futures. Even transfers, or "scratch trades," which had previously been excluded from clearinghouse totals since they were purchases and sales made at the same price on the same day by floor brokers and scratched off their cards, are included in these totals. "Puts and calls" or indemnity transactions were prohibited by the Futures Trading Act of 1921 and did not take place in 1922. (Grain Futures Administration, Annual Report, 1924, pp. 28-29; and U.S. Dept. of Agr., Grain Futures Administration, Grain Futures, Daily Data, Stat. Bull. No. 6, 1924, pp. 3-4).

The board of trade in 1922 had approximately 1,600 members and the board's clearinghouse (composed of individuals, firms, and corporations) had 132 active members. This compares with 1,402 members of the board and 113 active clearing firms in 1972.

Clearinghouse members that were active in 1917 were classified by the Federal Trade Commission as follows:

Private wirehouses, excluding terminal elevators and including wirehouses with receiving departments, principally grain	14
Private wirehouses, excluding terminal elevators and including wirehouses with receiving departments, principally stocks	9
Local commission houses with business mainly in futures, general futures	17
Local commission houses with business mainly in futures, principally floor trade	13
Independent pit scalpers, that is, those clearing their own trades	65
Terminal elevators, including those with private wires	9
Cash handlers without terminal elevators	25
Provision dealers and provision traders	12
	164

The definition of wirehouses used above by the FTC is broader than the definition used in the 1972 CEA survey. Under the FTC definition, a wirehouse was any firm that had a large private wire system, whether it was primarily a stock exchange firm or a firm in the grain trade, although large elevator concerns were excluded. The FTC report characterized the typical wirehouse as "merely a broker or agent of customers" and as "a characteristic facility for speculation generally." Wirehouses were also reported to "have almost a monopoly of futures business done at full commission rates, at least for such as originates outside Chicago;" and the largest wirehouses were "rather more likely to be primarily stock-exchange than grain-exchange houses," although "some of the largest systems have started as grain-futures houses."12/

12/ U.S. Federal Trade Commission, op. cit., p. 103.

Volume of Trading by Various Trading Groups

To compare the results of the FTC and CEA surveys, it was necessary to regroup firms under comparable classifications. The FTC classification "private wirehouses, principally stocks" was considered to be the same as wirehouses defined in the CEA study. The FTC classifications "grain wirehouses" and "local commission houses with business mainly in futures" were considered to be the same as commodity houses defined in the CEA study. After regrouping, the following distribution resulted:

Type of clearing firm	1917	1972
Wirehouses (primarily securities brokerage)	9	21
Commodity houses (includes those with private wire systems)	44	42
Commercials	46	17

From 1917 to 1972, the number of wirehouses more than doubled and the number of commercials declined sharply. The increase in wirehouses reflects the growth in houses that clear their own trades. The decline in the number and importance of commercials reflects the demise of cash commission houses and line elevators. It also reflects the growth of cooperatives and large vertically integrated firms with a larger share of the cash market. This is seen in the following tabulation:

Type of clearing firm	Share of 1922 trading in--				Share of all 1972 trading
	Wheat	Corn	Oats	All commodities	
	Percent				
Wirehouses and commodity houses	51.2	50.2	50.7	50.9	73.6
Commercials	17.1	21.1	34.7	19.8	14.9

Since it was not possible to separate the percentage of trading by grain wirehouses from that by securities wirehouses as reported by the FTC, the trading of wirehouses and commodity houses in 1922 and 1972 cannot be compared separately. As seen above, however, the percentage accounted for by both groups together increased from 1922 to 1972.

Volume of Trading by Floor Traders

During the active trading months of 1917, over 40 percent of the futures transactions in corn and over 35 percent of those in wheat were reported by FTC to represent the operations of pit traders or scalpers. These traders execute their own trades on the floor of the exchange and are constantly buying and selling at current quotations for small gains, such as one-quarter or one-eighth of a cent per bushel. Most of them endeavor to liquidate their positions by the end of the day or to maintain positions that are net "even"--that is, neither long nor short.

In 1923, trading in wheat by scalpers on the Chicago Board of Trade amounted to approximately half the total trading, according to reports of the Grain Futures Administration. Data collected for the present study showed that scalpers did at least 40 percent of all 1972 board trading, and a 1961 CEA survey showed that soybean trading by selected scalp houses accounted for over 50 percent of the total. 13/ Thus, scalpers continue to account for about the same significant percentage of all transactions on the Chicago Board of Trade as in the past, despite the structural changes that have occurred in futures trading.

A high percentage of the scalp trades in the period covered by the FTC study consisted of scratch trades. The FTC reported that prior to the levying of a 2¢ per $100 tax on futures transactions on Dec. 1, 1917, the proportion of even or transfer trades disposed of by scratching the trades off the pit scalpers' trading cards was as large as one-quarter to one-third and sometimes one-half the trading on a scalper's card. 14/ The Grain Futures Administration reported that scratch trades in wheat futures averaged 30 percent of all trading in the first third of 1921-23. 15/ The 1972 CEA survey, by contrast, found that scratch trades in all board of trade commodities amounted to only 7.5 percent of all transactions reported by clearing members. The figures are not comparable, however, because reports of scratch trades in the 1972 survey were limited to trades cleared through other houses and subject to commission charges. The Grain Futures Administration reports for 1923 were based on data from the Bureau of Internal Revenue and included the total of scratch trades by clearing and nonclearing members. It was in the interest of members to report such trades (which were free from the sales tax of 2¢ per $100 then payable on all other futures transactions). 16/

13/ U.S. Dept. of Agr., Commodity Exchange Authority, Soybean Futures Market, 1960-61, Feb. 1962.

14/ U.S. Federal Trade Commission, op. cit., pp. 248-249.

15/ Grain Futures Administration, Trading in Grain Futures, Senate Document No. 110, 68th Congress, 1st Session, 1924, p. 3.

16/ U.S. Federal Trade Commission, op. cit., pp. 87-88. Prior to the 1917 tax, even-price trades that could be scratched from the pit scalpers' trading cards were not included in the total volume of trading and were not subject to any commission charges. The Chicago Board of Trade interpreted the tax law as calling for the collection of commissions and imposed a low rate on even-price transfers to be effective Dec. 1, 1917.

Commission Payments

Total commission payments on close-out trades on the Chicago Board of Trade during March 20-30 and May 1-12, 1972, amounted to $4.3 million. Using the actual volume of trading and the same distribution among commodities and commission rates, it is estimated that total commission payments in 1971 and 1972 were about $69 million and $78 million, respectively. This would be three times the amount paid in 1922 for futures trading on the board, which was estimated by the FTC to range from $20 million to $25 million. 17/

Volume of Trading by Commission Rate

The following tabulation compares the 1916-17 distribution of commodity futures trading by commission rate with that found for March 20-30 and May 1-12, 1972. In both periods, trades cleared for others as well as trades at regular rates by nonmembers and members accounted for about the same proportion of the total:

Commission-rate class	Percentage of total trades	
	1916-17 1/	1972
	Percent	
House trades	15.1	35.4
Cleared for other members	31.3	29.5
Individual nonmembers	21.0	20.3
Individual members	12.4	11.5
Made for other houses (omnibus)	20.2	3.3
Total	100.0	100.0

1/ Federal Trade Commission, op. cit., p. 111.

Trading by clearing members for their own account increased considerably by 1972 at the same time that trades made by clearing members for other houses declined.

17/ U.S. Federal Trade Commission, op. cit., p. 113.

Commission Rates on Wirehouse Trades

Most of the trades included under the category "made for other houses" in 1916-17 were for wirehouse correspondents (omnibus accounts). Differences in the percentage distribution of wirehouse trades by commission-rate categories in 1916 and in 1972 are shown in the following tabulation:

Commission-rate class	Percent of total wirehouse trades		
	1916		1972, all commodities
	Wheat	Corn	
House trades	2.3	2.2	1.3
Cleared for others	16.5	13.1	13.1
Made for other houses (omnibus)	51.6	53.2	7.0
Individual members	5.3	12.2	16.1
Individual nonmembers	24.3	19.3	62.5
Total	100.0	100.0	100.0

From 1916 to 1972, a major decline occurred in the proportion of wirehouse transactions that were made for other houses. Many wirehouses that in 1916 had omnibus accounts with other houses became clearing members by 1972. The changing role of wirehouses is also illustrated by the significantly higher proportion of nonmember trades in wirehouse volume.

VIII--COMPARISON OF REPORTS REGULARLY SUBMITTED TO CEA WITH SURVEY RESULTS

As mentioned earlier, the Commodity Exchange Authority regularly receives reports filed by clearing members and large traders on the Chicago Board of Trade. In addition, in recent years CEA has taken special position surveys of all traders in specific commodities on selected dates. In this chapter, data from the regular reports are compared with data from the position surveys. Also, data from these two sources will be compared with data obtained from the March 20-30 and May 1-12, 1972, surveys on which this report is based.

The regular reports, which are required by law to be submitted to CEA, are from traders considered to be "large" traders. For example, traders whose positions in any one commodity future on any one contract market equal or exceed the quantities specified below are required to report daily all trades and changes in positions in these commodities:

Commodity	Reporting level
Wheat	200,000 bushels
Corn	200,000 bushels
Oats	200,000 bushels
Soybeans	200,000 bushels
Soybean oil	25 contracts (1.5 million pounds)
Soybean meal	25 contracts (2,500 tons)

Most trading of members who are professional pit scalpers (seeking small profits from quick and frequent purchase and resale of futures contracts and not usually remaining with large overnight positions) would not be included in these reports nor would be trading of the many small nonmember speculators. Analysis of the trading and commitments of reporting traders would, however, give some indication of the amount of trading done by large traders who were clearing or nonclearing members and the amount done by nonmembers, who paid the higher commission rates.

Regular Reports Compared With Special Position Surveys

The regular, daily reports of trades and positions in wheat and corn for September 30, 1970, were examined to determine the percentage of trading and commitments accounted for by clearing and nonclearing members and by nonmembers. This date was chosen because it was the month-end date for the 1971 fiscal year with the heaviest volume of trading. Information for this date was also compared with data from special corn and wheat position surveys taken in 1967. The two special position surveys included all traders in the market, not just "large" traders.

On September 30, 1970, only 136 members of the board reported trades and positions in corn, compared with 467 on the date covered in the 1967 CEA corn position survey. However, the shares of open positions held by member traders on both dates was about the same--they held approximately 37 percent of the long positions and 68 percent of the short positions (table 26). A similar situation

existed in wheat, where 69 board members held 50 percent of the long and 60 percent of the short open positions on September 30, 1970. In the 1967 CEA wheat position survey, 436 member traders held 46 percent of the long and 77 percent of the short open contracts. A very large number of board members covered by the 1967 position surveys were scalpers and day traders who had either very small overnight positions in the market or none at all.

Table 26--Chicago Board of Trade members reporting their open positions in corn and wheat on Sept. 30, 1970, compared with number reporting such data in 1967 CEA market position surveys

Date and type of trader	Corn			Wheat		
	Traders	Percent of total market positions		Traders	Percent of total market positions	
		Long	Short		Long	Short
	Number	Percent		Number	Percent	
Sept. 30, 1970:						
Clearing members	62	22.4	45.8	30	38.0	33.1
Nonclearing members	74	14.7	22.5	39	12.0	27.1
Total	136	37.1	68.3	69	50.0	60.2
1967 market survey:						
Individual members--						
Speculative	291	17.2	15.1	293	28.8	32.2
Hedge	9	.1	.3	7	.2	.4
Member firms--						
Speculative	21	1.4	1.3	24	2.3	1.3
Hedge	146	17.8	48.7	112	14.3	43.5
All members--						
Speculative	312	18.6	16.4	317	31.1	33.5
Hedge	155	17.9	49.0	119	14.5	43.9
Total	467	36.5	65.4	436	45.6	77.4

Trading of Reporting Traders

Table 27 classifies the trading of reporting traders in wheat, corn, and soybeans according to the traders' membership on the Chicago Board of Trade. Practically all of the trading by reporting traders, amounting to about half the total volume, was by members of the board. Almost one-third of the total volume was by clearing members with reportable positions.

Table 27--Percentage distribution of trading in wheat and corn on Sept. 30, 1970, and in soybeans on June 30, 1970, by type of trader, Chicago Board of Trade

Type of trader	Wheat	Corn	Soybeans
		Percent	
Reporting clearing members	32.8	25.2	34.4
Reporting nonclearing members	17.4	19.2	14.4
Reporting nonmembers	1.4	3.2	3.4
All reporting traders	51.6	47.6	52.2
All nonreporting traders	48.4	52.4	47.8
Total	100.0	100.0	100.0

The above percentages accounted for by reporting clearing members correspond very closely to results obtained in the March 20-30 and May 1-12, 1972, surveys, which showed that 35 percent of the transactions closed out were for members at no commission charge. As shown by these data, an overwhelming percentage of the transactions by reporting traders on the Chicago Board of Trade were by board members.

Concentration Ratios in Commitments and Trading

Concentration ratios were calculated to show the shares of total commitments and total trades accounted for by the largest traders. 18/ Traders with the largest commitments were not those who did the most trading. In neither case, however, was there much concentration in the hands of a few traders.

The top four traders in corn accounted for 8 percent of the corn trading, and the top eight accounted for 15 percent. In soybeans, the top four traders did 10 percent and the top eight traders did 20 percent of the trading. Concentration ratios were somewhat higher in wheat, with the top four traders accounting for 30 percent and the top eight traders accounting for 38 percent of the transactions.

These concentration ratios are, on the whole, considerably smaller than those obtained in the March and May 1972 surveys, but this should be expected since they reflect individual reporting traders with positions in the market rather than clearing firms, which trade for a large number of customers.

18/ The Commodity Exchange Commission has fixed limits on the amount of trading that may be done by any person during any trading day and on the maximum position any trader may hold or control; these "speculative limits" do not apply to "bona fide hedging transactions" as defined in the Commodity Exchange Act.

Volume of Trading by Clearing Members

Each clearing member of the Chicago Board of Trade is required to submit daily reports to the CEA on all long and all short open contracts in each regulated commodity carried on its books. In addition, clearing members must report all trades--including scratch trades, holdouts, transfers, exchanges of futures for cash, and deliveries--for each regulated commodity.

Clearing members reporting on March 30, and April 28, 1972, were classified in the same manner as were the firms used in the March and May survey periods. Table 28 shows the relative importance of each type of firm in terms of total volume of trading cleared and in terms of positions held in open contracts. On both March 30 and April 28, commodity houses cleared about 60 percent of the trades, while commercials without customers cleared only 2 percent and all other types of firms cleared about 12 percent.

Data from the March 30 and April 28 reports combined were compared with data from the March and May survey of close-out trades. As indicated below, the clearing firms' shares of total trading volume in the daily reports are very similar to the shares that clearing firms held in the survey of close-out trades:

Type of firm	Trading volume, Mar. 30 and Apr. 28, 1972				Close-out volume, 1972 survey
	Bought	Sold	Bought	Sold	
	Number		Percent		
Wirehouses	7,561	8,823	12.0	14.0	16.0
Commodity houses	37,591	37,818	59.5	59.8	57.6
Commercials with customers	8,871	7,637	14.0	12.1	14.0
Sole proprietorships	7,862	7,909	12.4	12.5	11.5
Commercials without customers	1,331	1,029	2.1	1.6	.9
Total	63,216	63,216	100.0	100.0	100.0

On March 30 and April 28, commodity houses carried the largest number of open contracts, accounting for about 39 percent of the long side and about 47 percent of the short side (table 28). Commercials with customers held between 27 and 31 percent of both the long and short open contracts. The percentage of open contracts held by traders clearing through wirehouses and commercials was greater than the percentage of trading they accounted for. However, the reverse was true for traders clearing through commodity houses.

Table 28--Volume and percentage distribution of trading and open contracts, all regulated commodities, Chicago Board of Trade, by type of clearing firm, Mar. 30 and Apr. 1972

Date and classification	Volume of trading and open contracts				Percentage distribution			
	Volume		Open contracts		Volume		Open contracts	
	Bought	Sold	Long	Short	Bought	Sold	Long	Short
	Number				Percent			
March 30, 1972:								
Wirehouses	2,869	3,231	56,198	33,222	13.1	14.7	31.0	18.3
Commodity houses	13,000	13,033	69,305	82,555	59.2	59.3	38.3	45.6
Commercials with customers	3,294	3,094	47,902	55,960	15.0	14.1	26.4	30.9
Sole proprietorships	2,499	2,406	6,026	4,573	11.4	11.0	3.3	2.5
Commercials (without customers)	299	197	1,741	4,862	1.3	.9	1.0	2.7
Total	21,961	21,961	181,172	181,172	100.0	100.0	100.0	100.0
April 28, 1972:								
Wirehouses	4,692	5,592	51,351	34,595	11.4	13.6	28.2	19.0
Commodity houses	24,591	24,785	70,861	86,845	59.6	60.1	39.0	47.8
Commercials with customers	5,577	4,543	50,320	50,788	13.5	11.0	27.7	27.9
Sole proprietorships	5,363	5,503	7,402	6,018	13.0	13.3	4.1	3.3
Commercials (without customers)	1,032	832	1,897	3,585	2.5	2.0	1.0	2.0
Total	41,255	41,255	181,831	181,831	100.0	100.0	100.0	100.0

APPENDIX--DEFINITION OF TERMS AND MECHANICS OF TRADING IN COMMODITY FUTURES CONTRACTS

The commodity futures industry, like every other industry, has its own peculiarities and its own terminology. This appendix defines some basic trade terms and some of the terms specifically defined in the Commodity Exchange Act.

This appendix also contains a brief explanation of some of the features of commodity futures trading which distinguish it from securities trading. Some of these differences are a result of trade practices, while others are required by the Commodity Exchange Act.

Trade Terminology

The following list of definitions are in a logical rather than alphabetical progression in order that this appendix may serve as an introduction to futures trading as well as a glossary.

Basic definitions of futures trading

Futures contract: An agreement to buy and receive, or to sell and deliver, a commodity at a future date and in accord with standardized terms.

Cash commodity: The physical or actual commodity as distinguished from the "futures."

Delivery: The tender and receipt of the actual (cash) commodity, or of warehouse receipts covering such commodity, in settlement of a futures contract.

Delivery month: The specified month within which a futures contract matures and can be settled by delivery.

Open contracts, open interest: The obligation entered into by a party to a futures contract either to buy or to sell the commodity specified. The obligation is "open" until it is settled by an offsetting transaction or by delivery.

Long: The buying side of an open futures contract. A long position is subject to receipt of the cash commodity if it is not offset with a sale of a futures contract.

Short: The selling side of an open futures contract. A short position is subject to making delivery of the cash commodity if it is not offset with the purchase of a futures contract.

Offset: Usually, the liquidation of a long or short futures position by an equal and opposite futures transaction. Open positions can be offset at any time during the life of a futures contract.

Spread: (1) The purchase of one futures contract against the sale of another contract in a different future, a different commodity, or a different market. (2) The price difference between two futures in the same or different markets.

Basis: The difference between the price of the cash commodity and the price of a designated futures contract for that commodity. Some cash commodities are priced and traded in relation to futures prices.

Hedge: Briefly stated, hedging is the sale of futures against the purchase of the cash commodity or its equivalent as protection against a price decline; or the purchase of futures against forward sales or anticipated requirements of the physical commodity as protection against a price advance.

Speculator: A person entering into futures contracts for any purpose other than hedging.

Scalper: A speculator who trades for himself in the pit and is in and out of the market on very small price fluctuations, ordinarily closing the day with few or no open contracts.

Scratch trade: A transaction in which a purchase and sale of the same quantity, on the same day, at the same price, in the same future, is made for the account of a nonclearing member who makes his own trades or is present on the floor.

Terms defined in the Commodity Exchange Act and its general regulations 1/

Board of trade: Any exchange or association, whether incorporated or unincorporated, of persons engaged in the business of buying or selling any commodity or receiving the same for sale on consignment.

Contract market: A board of trade designated by the Secretary of Agriculture as a contract market under the Commodity Exchange Act.

Clearing member: Any person who is a member of, or enjoys the privilege of clearing trades in his own name through, the clearing organization of a contract market.

Clearing organization: The person or organization which acts as a medium for clearing transactions in commodities for future delivery, or for effecting settlements of contracts for future delivery, for and between members of any board of trade.

Futures commission merchant: Individuals, associations, partnerships, corporations, and trusts engaged in soliciting or in accepting orders for the purchase or sale of any commodity for future delivery on, or subject to the rules of, any contract market and that, in or in connection with such solicitation or acceptance of orders, accepts any money, securities, or

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1/ See section 1.3 of the Regulations of the Secretary of Agriculture under the Commodity Exchange Act, as amended.

property (or extends credit in lieu thereof) to margin, guarantee, or secure any trades or contracts that result or may result therefrom.

Floor broker: Any person who, in or surrounding any pit, ring, post, or other place provided by a contract market for the meeting of persons similarly engaged, shall purchase or sell for any other persons any commodity for future delivery on, or subject to the rules of, any contract market.

Floor trader: A member of a contract market who, on the exchange floor, executes a futures trade for his own account or an account controlled by him, or has such a trade made for him.

Commodity brokerage terms

Brokerage firm, commission house, or commission merchant: See "futures commission merchant."

Wirehouse: A futures commission merchant with many branch offices connected by telephone, teletype, telegraph, or cable. Generally, these firms deal in securities as well as in commodities.

Commercial firm: A firm primarily engaged in storing, merchandising, or processing the cash commodity.

Omnibus account: An account carried by one futures commission merchant for another on a net basis in which the positions of two or more persons are combined or netted rather than designated separately.

Purchase and sale (P&S) statement: Statement sent by a commission merchant to a customer when his futures position has closed out. The statement shows the amount involved, the prices at which the position was acquired and closed out, the gross profit or loss, the commission charges, and the net profit or loss on the transactions.

Margin: Cash or an equivalent deposited as a guarantee of fulfillment of a futures contract (not a part payment or purchase).

Floor brokerage: The fee charged by a floor broker for execution of a transaction.

Commission: Fee charged by a commission merchant for the performance of a specific operation.

The Mechanics of Futures Trading

The mechanics of commodity futures trading are similar in many ways to securities trading. The following discussion of futures trading emphasizes the differences rather than the similarities between the two types of trading.

Placing orders

The manner in which a customer's order to trade commodities is placed and transmitted to the central market differs little from securities brokerage. The customer contacts his solicitor or account executive who in turn transmits the order, either directly or through a central office, to the exchange trading floor. The order is received on the trading floor by the firm's phone man or floor broker. After recording and time stamping the order, he gives it to a runner who carries the order to a floor broker in the designated trading area for that commodity. On the board, these trading areas are called pits, and each delivery month of a commodity is generally traded in a certain area within the pit. Some firms no longer telephone orders to the floor. Instead, the orders are fed through a computerized system that transmits them to the floor via teletype.

Execution of trades

The actual trading of futures contracts on the board takes place in the noisy, boisterous setting of an auction-type market. The Commodity Exchange Act requires that all futures transactions in regulated commodities be executed on a commodity exchange designated by the Secretary of Agriculture as a "contract market." Both the Commodity Exchange Act and the rules and regulations of the commodity exchanges require that futures transactions be executed openly in a competitive manner. Section 1.38 of the regulations under the Commodity Exchange Act reads as follows:

> All purchases and sales of any commodity for futures delivery on or subject to the rules of a contract market shall be executed openly and competitively by open outcry or posting of bids and offers or by other equally open and competitive methods, in the trading pit or ring or similar place provided by the contract market, during the regular hours prescribed by the contract market for the trading in such commodity.

Certain carefully prescribed exceptions to competitive trading are allowed, but they do not nullify the general requirement of open and competitive trading.

The purpose of this requirement is to ensure that all trades are executed at competitive prices and that all trades are focused into the centralized marketplace to participate in the competitive determination of the price of futures contracts. This system also provides ready access to the market for all orders and results in a continuous flow of price information to the public.

The rules requiring competitive trading also require that all trades be executed in the area and during the hours designated by the contract market. Thus, each exchange has a monopoly on the trading of its own contracts. Other exchanges can trade virtually identical contracts for the same commodity, provided they meet the requirements of a contract market as specified by the Commodity Exchange Act and are so designated by the Secretary of Agriculture.

Clearing trades

After a trade has been executed, the confirmation of the trade retraces the path of the initial order within a few minutes. Final confirmation, however, cannot be made until the trade goes through the clearinghouse. In the clearinghouse, both sides of the trade must be matched, and any differences between the buyer and seller must be referred to the clearing firms involved for reconciliation.

A brief description of the clearing procedure for futures trading points out one of the major distinctions between futures and securities trading. Unlike securities, there is no certificate or document exchanged in a futures transaction. The futures contract is embodied in the rules and regulations of the contract market.

The clearinghouse (or clearing association) performs the functions of matching all buys and sells which are executed each day and of assuring the financial integrity of all futures transactions. As trades are matched and confirmed at the end of each trading session, the clearinghouse takes the opposite side of every transaction. It becomes the seller of all buys and the buyer of all sells. Thus, when a trader establishes a position in the market, he does so with the clearinghouse, and when he offsets his position he offsets it with the clearinghouse. The clearinghouse assumes the legal responsibility for the opposite side of every transaction made on the contract market.

The clearinghouse requires that its members deposit margins to secure their firm's futures transactions. The clearing members, in turn, require margins from their customers. If the market moves against the open contracts of a clearing firm, that firm's initial margin is impaired and additional margin will be required.

Daily payments or receipts also occur between the clearinghouse and its members to account for daily price changes. The clearinghouse maintains the open accounts of member firms at the current market prices. At the end of each day, these accounts are adjusted to the day's settlement price for each contract. Firms with net gains receive payment from the clearinghouse, while firms with net losses make payments to the clearinghouse. These receipts and payments of the clearinghouse exactly offset one another, with the clearinghouse merely transferring equity from losers to winners.

Deliveries on futures contracts are also made through the clearinghouse. A seller wishing to make delivery on a futures contract during the delivery month files a delivery notice with the clearinghouse on the day prior to the intended delivery. The clearinghouse then assigns the notice to the clearing member having the oldest long position in that particular future. At this point, the clearinghouse has completed its role, and the delivery must be consummated between the buyer and seller in accordance with exchange rules.

Protection of Customers' Money, Securities, and Property

Another major distinction between commodities and securities trading is the protection afforded customers' money, securities, and property under the Commodity Exchange Act. Section 4d(2) of the act, and sections 1.20-1.30 and 1.36 of the regulations, carefully prescribe the manner in which futures commission merchants account for the money, securities, and property that customers deposit with them when trading in regulated commodities.

The basic provision of section 4d(2) of the act is that customers' margin deposits and equities must be segregated from the funds of futures commission merchants and from unregulated commodity accounts and must be separately accounted for. The law applies only to the trading of those commodities covered by the Commodity Exchange Act (sec. 2). The purpose of this segregation provision is to prevent the misuse of customers' money and to protect customers in the event of the failure of a futures commission merchant.

Appendix table A-1--Minimum rates of commissions per contract for commodities traded on the Chicago Board of Trade

Commodity (and contract unit)	Regular trades (rule 231, sec. 1)		Spreads 1/ (rule 231, sec. 2 & 3 2/)		Day trades (rule 231, sec. 6)		Floor trades 4/ (rule 221(e))
	Nonmember	Member	Nonmember	Member	Nonmember	Member off floor 3/	Member on floor
				Dollars			
Grain 5/:							
Wheat, corn, soybeans (5,000 bu.)	30.00	15.00	18.00	9.00	20.00	15.00	1.60
Oats (5,000 bu.)	25.00	12.50	18.00	9.00	17.00	12.50	1.60
Soybean meal (100 tons) 5/	33.00	16.50	22.00	11.00	22.00	16.50	2.00
Soybean oil (60,000 lbs.) 5/	33.00	16.50	22.00	11.00	22.00	16.50	2.00
Broilers (25,000 lbs.)	30.00	15.00	18.00	9.00	20.00	15.00	1.60
Plywood (box car)	30.00	15.00	20.00	10.00	20.00	15.00	1.60
Silver (5,000 ounces)	30.00	15.00	16.00	8.00	15.00	15.00	1.60

1/ Intramarket spreads in the same commodity initiated at the same time and closed at the same time.

2/ Rule 231, sec. 3, provides for intercommodity spreads. These include crush and reverse crush spreads which consist of one soybean contract against one soybean oil contract and one soybean meal contract at commissions of $62 for nonmembers and $31 for members.

3/ Some controversy exists over whether off-floor member day trades should be charged the regular member commission rate or one-half of the nonmember day-trade rate.

4/ Applies to trades closed within 180 days for members operating on the exchange trading floor. Brokerage is not included.

5/ Federally regulated commodities (sec. 2(a), Commodity Exchange Act).

Source: Compiled from information supplied by the Chicago Board of Trade.

Appendix table A-2--Commission rates for nonmembers and members, and as a percentage of contract value, by type of commission, commodities traded on the Chicago Board of Trade, Mar. 20, 1972

Type and commodity	Contract unit	Closing price: Unit	Closing price: Price of near future	Contract value	Commission: Nonmember	Commission: Member	Commission as percent of contract value: Nonmember	Commission as percent of contract value: Member
			Dollars		Dollars		Percent	
Regular (231, sec. 1):								
Oats	5,000 bu.	Cents per bu.	77 5/8	3,881	25.00	12.50	0.64	0.32
Wheat	do.	do.	162 1/2	8,125	30.00	15.00	.37	.18
Corn	do.	do.	120 3/4	6,038	30.00	15.00	.50	.25
Soybeans	do.	do.	340 3/4	17,038	30.00	15.00	.18	.09
Soybean meal	100 tons	Dollars per ton	93.25	9,325	33.00	16.50	.35	.18
Soybean oil	60,000 lb.	Cents per lb.	11.67	7,002	33.00	16.50	.47	.24
Choice steers	40,000 lb.	do.	No trading		40.00	20.00		
Broilers	25,000 lb.	do.	29.25	7,312	30.00	15.00	.41	.21
Plywood	69,120 sq. ft.	Dollars per 1,000 sq. ft.	99.30	6,864	30.00	15.00	.44	.22
Silver	5,000 troy oz.	Cents per troy oz.	155.10	7,755	30.00	15.00	.39	.19
Spreads (231, sec. 2):								
Oats	5,000 bu.	Cents per bu.	77 5/8	3,881	18.00	9.00	.46	.23
Wheat	do.	do.	162 1/2	8,125	18.00	9.00	.22	.11
Corn	do.	do.	120 3/4	6,038	18.00	9.00	.30	.15
Soybeans	do.	do.	340 3/4	17,038	18.00	9.00	.11	.05
Soybean meal	100 tons	Dollars per ton	93.25	9,325	22.00	11.00	.24	.12
Soybean oil	60,000 lb.	Cents per lb.	11.67	7,002	22.00	11.00	.31	.16
Choice steers	40,000 lb.	do.	No trading		24.00	12.00		
Broilers	25,000 lb.	do.	29.25	7,312	18.00	9.00	.25	.12
Plywood	69,120 sq. ft.	Dollars per 1,000 sq. ft.	99.30	6,864	20.00	10.00	.29	.15
Silver	5,000 troy oz.	Cents per troy oz.	155.10	7,755	16.00	8.00	.21	.10
Day trade (231, sec. 6 and 221(a)):								
Oats	5,000 bu.	Cents per bu.	77 5/8	3,881	17.00	12.50	.44	.32
Wheat	do.	do.	162 1/2	8,125	20.00	15.00	.25	.18
Corn	do.	do.	120 3/4	6,038	20.00	15.00	.33	.25
Soybeans	do.	do.	340 3/4	17,038	20.00	15.00	.12	.09
Soybean meal	100 tons	Dollars per ton	93.25	9,325	22.00	16.50	.24	.18
Soybean oil	60,000 lb.	Cents per lb.	11.67	7,002	22.00	16.50	.31	.24
Choice steers	40,000 lb.	do.	No trading		27.00	20.00		
Broilers	25,000 lb.	do.	29.25	7,312	20.00	15.00	.27	.21
Plywood	69,120 sq. ft.	Dollars per 1,000 sq. ft.	99.30	6,864	20.00	15.00	.29	.22
Silver	5,000 troy oz.	Cents per troy oz.	155.10	7,755	15.00	15.00	.19	.19
Closed in 180 days (221(e)):								
Oats	5,000 bu.	Cents per bu.	77 5/8	3,881	N.A.	1.60		.04
Wheat	do.	do.	162 1/2	8,125	N.A.	1.60		.02
Corn	do.	do.	120 3/4	6,038	N.A.	1.60		.03
Soybeans	do.	do.	340 3/4	17,038	N.A.	1.60		.01
Soybean meal	100 tons	Dollars per ton	93.25	9,325	N.A.	2.00		.02
Soybean oil	60,000 lb.	Cents per lb.	11.67	7,002	N.A.	2.00		.03
Choice steers	40,000 lb.	do.	No trading			1.60		
Broilers	25,000 lb.	do.	29.25	7,312	N.A.	1.60		.02
Plywood	69,120 sq. ft.	Dollars per 1,000 sq. ft.	99.30	6,864	N.A.	1.60		.02
Silver	5,000 troy oz.	Cents per troy oz.	155.10	7,755	N.A.	1.60		.02

Source: Closing prices, Wall Street Journal (Midwest Edition).
N.A. means not applicable.

Appendix table A-3--Minimum price fluctuation, commission rates for nonmembers and members, and minimum price change to pay minimum commission, by type of commission, Chicago Board of Trade

Type and commodity	Contract unit	Minimum price fluctuation		Commission		Minimum price change to pay minimum commission			
		Per unit	Per contract	Nonmember	Member	Nonmember		Member	
			Dollars	- - - Dollars - - -		Unit	Cents	Unit	Cents
Regular									
(231, sec. 1):									
Oats	5,000 bu.	1/8¢ per bu.	6.25	25.00	12.50	4.0	1/2	2.0	1/4
Wheat	do.	do.	6.25	30.00	15.00	4.8	5/8	2.4	3/8
Corn	do.	do.	6.25	30.00	15.00	4.8	5/8	2.4	3/8
Soybeans	do.	do.	6.25	30.00	15.00	4.8	5/8	2.4	3/8
Soybean meal	100 tons	5¢ per ton	5.00	33.00	16.50	6.6	35	3.3	20
Soybean oil	60,000 lb.	1/100¢ per lb.	6.00	33.00	16.50	5.5	.06	2.75	.03
Choice steers	40,000 lb.	2 1/2/100¢ per lb.	10.00	40.00	20.00	4.0	.10	2.0	.05
Broilers	25,000 lb.	do.	6.25	30.00	15.00	4.8	.125	2.4	.075
Plywood	69,120 sq. ft.	10¢ per 1,000 sq. ft.	6.91	30.00	15.00	4.34	50	2.17	30
Silver	5,000 troy oz.	10/100¢ per troy oz.	5.00	30.00	15.00	6.0	.60	3.0	.30
Spreads									
(231, sec. 2):									
Oats	5,000 bu.	1/8¢ per bu.	6.25	18.00	9.00	2.88	3/8	1.44	1/4
Wheat	do.	do.	6.25	18.00	9.00	2.88	3/8	1.44	1/4
Corn	do.	do.	6.25	18.00	9.00	2.88	3/8	1.44	1/4
Soybeans	do.	do.	6.25	18.00	9.00	2.88	3/8	1.44	1/4
Soybean meal	100 tons	5¢ per ton	5.00	22.00	11.00	4.4	25	2.2	15
Soybean oil	60,000 lb.	1/100¢ per lb.	6.00	22.00	11.00	3.67	.04	1.83	.02
Choice steers	40,000 lb.	2 1/2/100¢ per lb.	10.00	24.00	12.00	2.4	.075	1.2	.05
Broilers	25,000 lb.	do.	6.25	18.00	9.00	2.88	.075	1.44	.05
Plywood	69,120 sq. ft.	10¢ per 1,000 sq. ft.	6.91	20.00	10.00	2.89	30	1.45	20
Silver	5,000 troy oz.	10/100¢ per troy oz.	5.00	16.00	8.00	3.2	.40	1.6	.20

Continued--

Appendix table A-3--Minimum price fluctuation, commission rates for nonmembers and members, and minimum price change to pay minimum commission, by type of commission, Chicago Board of Trade--Continued

Type and commodity	Contract unit	Minimum price fluctuation		Commission			Minimum price change to pay minimum commission					
		Per unit	Per contract	Nonmember	Member		Nonmember		Member			
					Off floor	On floor			Off floor		On floor	
			Dollars	Dollars	Dollars	Dollars	Unit	Cents	Unit	Cents	Unit	Cents
Day trade (231, sec. 6, 221(a), and 221(e)):												
Oats	5,000 bu.	1/8¢ per bu.	6.25	17.00	12.50	1.60	.72	3/8	2.0	1/4	.256	1/8
Wheat	do.	do.	6.25	20.00	15.00	1.60	3.2	3/8	2.4	1/4	.256	1/8
Corn	do.	do.	6.25	20.00	15.00	1.60	3.2	3/8	2.4	1/4	.256	1/8
Soybeans	do.	do.	6.25	20.00	15.00	1.60	3.2	3/8	2.4	1/4	.256	1/8
Soybean meal	100 tons	5¢ per ton	5.00	22.00	16.50	2.00	4.4	25	3.3	20	.40	5
Soybean oil	60,000 lb.	1/100¢ per lb.	6.00	22.00	16.50	2.00	3.67	.04	2.75	.03	.333	.01
Choice steers	40,000 lb.	2 1/2 /100¢ per lb.	10.00	27.00	20.00	1.60	2.7	.075	2.0	.05	.16	.025
Broilers	25,000 lb.	do.	6.25	20.00	15.00	1.60	3.2	.10	2.4	.075	.256	.025
Plywood	69,120 sq. ft.	10¢ per 1,000 sq. ft.	6.91	20.00	15.00	1.60	2.89	30	2.17	30	.232	10
Silver	5,000 troy oz.	10/100¢ per troy oz.	5.00	15.00	15.00	1.60	3.0	.30	3.0	.30	.32	.10

Appendix table A-4--Floor brokerage rates for purchase or sale orders executed on the Chicago Board of Trade

Commodity	Size of contract	Futures		Cash			
		By grade		By grade		By sample	
		Rule 229a	Rule 229e	Rule 229b	Rule 229f	Rule 230a	Rule 230b
				Dollars			
Regulated commodities:							
Grains--							
Oats	5,000 bu.	1.50		2.50	1.50	1.50	6.25
Wheat	5,000 bu.	1.50		2.50	2.00	2.00	6.25
Corn	5,000 bu.	1.50		2.50	1.50	1.50	6.25
Soybeans	5,000 bu.	1.50		2.50	1.50	1.50	6.25
Soybean meal	100 tons		1.50	2.50			
Soybean oil	60,000 lb.		1.50	2.50			
Choice steers	40,000 lb.		1.50				
Nonregulated commodities:							
Broilers	25,000 lb.		1.50				
Plywood	69,120 sq. ft.		1.50				
Silver	5,000 troy oz.		1.50				

Source: Compiled from information supplied by the Chicago Board of Trade.


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